

AMERICAN REALTY INVESTORS INC
Form 10-K
April 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-15663

American Realty Investors, Inc.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of	75-2847135 (IRS Employer
Incorporation or organization)	Identification Number)
1603 LBJ Freeway, Suite 800	75234
Dallas, Texas	

(Address of principal executive offices) (Zip Code)

(469) 522-4200

Registrant's Telephone Number, including area code

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of Each Class</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer **Accelerated filer**
Non-accelerated filer **Smaller reporting company**
 Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes
No

Based on the last sale at the close of business on June 30, 2018, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$31,925,560. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 29, 2019, there were 15,997,076 shares of common stock outstanding.

Documents Incorporated By Reference:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc.; Commission File No. 001-14784

Consolidated Financial Statements of Transcontinental Realty Investors, Inc.; Commission File No. 001-09240

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FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words “estimate,” “plan,” “intend,” “expect,” “anticipate,” “believe,” and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described in Part I, Item 1A. “Risk Factors”.

PART I

ITEM 1. BUSINESS

General

As used herein, the terms “ARL,” “the Company,” “We,” “Our,” or “Us” refer to American Realty Investors, Inc., a Nevada corporation, which was formed in 1999.

The Company is headquartered in Dallas, Texas and its common stock is listed and trades on the New York Stock Exchange (“NYSE”) under the symbol “ARL”. Over 80% of ARL’s stock is owned by related parties. ARL and a subsidiary own approximately 77.68% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc. (“TCI”), a Nevada corporation, which has its common stock listed and traded on the NYSE under the symbol “TCI”. TCI’s financial results are consolidated with those of ARL. In 2012, May Realty Holdings, Inc. (“MRHI”) subsidiaries acquired more than 80% of ARL stock and as a result, ARL is included in the MRHI consolidated group for federal income tax reporting. We have no employees.

TCI owns approximately 81.25% of the common stock of Income Opportunity Realty Investors, Inc. (“IOR”). IOR’s financial results are consolidated with those of TCI and its subsidiaries. Shares of IOR are listed and traded on the NYSE American under the symbol “IOR”.

ARL's Board of Directors are responsible for directing the overall affairs of ARL and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc. ("Pillar"), a Nevada corporation, under a written Advisory Agreement that is reviewed annually by ARL's Board of Directors. The directors of ARL are also directors of TCI and IOR. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI and IOR. The officers of ARL also serve as officers of TCI, IOR and Pillar.

Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. ("RAI"), a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI"), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), manages our commercial properties and provides brokerage services. Regis receives property management fees, construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". ARL engages third-party companies to lease and manage its apartment properties.

Southern Properties Capital Ltd. a British Virgin Island corporation (“Southern” or “SPC”), is a wholly owned subsidiary of TCI that was incorporated on August 16, 2016 for the purpose of raising funds by issuing debentures that cannot be converted into shares on the Tel-Aviv Stock Exchange (“TASE”). Southern operates in the United States and is primarily involved in investing in, developing, constructing and operating income-producing properties of multi-family residential real estate assets. Southern is included in the consolidated financial statements of TCI.

On January 1, 2012, the Company’s subsidiary, TCI, entered into a development agreement with Unified Housing Foundation, Inc. (“UHF”) a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

On November 19, 2018, TCI executed an agreement between the Macquarie Group (“Macquarie”) and SPC and TCI to create a joint venture, Victory Abode Apartments, LLC (“VAA”) to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, SPC and TCI contributed a portfolio of 49 income producing apartment complexes, and 3 development projects in various stages of construction and received cash consideration of \$236.8 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development (“HUD”).

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of SPC and Summerset Intermediate Holdings 2 LLC (“Summerset”), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively (“Class A Members”). The remaining 2% of the profit participation interest is held by Daniel J. Moos ARL’s President and Chief Executive Officer (“Class B Member”) who also serves as the Manager of the joint venture.

ARL through subsidiaries invests in real estate through direct ownership, leases, and partnerships and also invests in mortgage loans on real estate. Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents; and by leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies.

At December 31, 2018, our income-producing properties (most of which were owned by subsidiaries of TCI) and the newly created joint venture consisted of:

Seven commercial properties consisting of five office buildings and two retail properties comprising in aggregate of approximately 1.7 million square feet;

Nine residential apartment communities comprising 1,489 units, excluding apartments being developed; and

Forty-nine residential apartment communities totaling 9,192 units owned by our 50% owned investee VAA.

The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2018:

Location	Apartments (Company owned)		Apartments (VAA owned)		Commercial (Company owned)	
	No.	Units	No.	Units	No.	SF
Alabama	1	200	1	168	—	—
Arkansas	—	—	5	1,122	—	—
Colorado	—	—	2	260	—	—
Florida	2	153	2	388	1	6,722
Georgia	—	—	1	222	—	—
Louisiana	1	240	3	464	—	—
Mississippi	2	400	1	196	—	—
North Carolina	—	—	1	201	—	—
Nevada	—	—	1	308	—	—
Tennessee	—	—	4	708	—	—
Texas-Greater Dallas-Ft Worth	—	—	13	2,384	4	1,473,634
Texas-Greater Houston	—	—	1	176	1	95,329
Texas-Other	3	496	14	2,595	—	—
Wisconsin	—	—	—	—	1	122,205
Total	9	1,489	49	9,192	7	1,697,890

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific, first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in some of our properties.

We join with various third-party development companies to construct residential apartment communities. At December 31, 2018, TCI and VAA each had three apartment projects in development. The third-party developer typically holds a general partner as well as a limited partner interest in a limited partnership formed for the purpose of building a single property while we generally take a limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our consolidated financial statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any

remaining unpaid developer fees.

At December 31, 2018, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date ⁽¹⁾	Total Projected Costs ⁽¹⁾
Sugar Mill III	Addis, LA	72	\$787	\$ 11,862
Parc at Denham Springs Phase II	Denham Springs, LA	144	6,532	18,768
Overlook at Allensville Phase II	Sevierville, TN	144	12,646	20,244
Total		360	\$19,965	\$ 50,874

⁽¹⁾ Costs include construction hard costs, construction soft costs and loan borrowing costs.

We have made investments in a number of large tracts of undeveloped and partially developed land and intend to continue to improve these tracts of land for our own development purposes or make the improvements necessary to ready the land for sale to other developers.

At December 31, 2018, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Location	Acquired	Acres	Cost	Intended Use
Dallas, TX	1996-2013	20.59	\$1,008	Mixed use
Farmers Branch, TX	2008	153.44	25,892	Mixed use
Kaufman County, TX	2008	16.79	1,597	Multi-family residential
Kaufman County, TX ⁽¹⁾	2006	1,963.68	50,913	Mixed use
Various	1990-2008	191.87	9,027	Various
Total Land Holdings		2,346.37	\$88,437	

⁽¹⁾ Windmill Farms Land was acquired by a subsidiary of ARL in 2006 and 2,900 acres were subsequently sold to TCI in 2011.

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2018 are discussed below:

Purchases

ARL purchased through one of its subsidiaries, seven residential apartment communities. A multi-family 80 unit community located in Baton Rouge, LA for a total purchase price of \$12 million, paid through a seller's financing note of \$1.9 million, issuance of note payable of \$8.6 million, and exercising an option to purchase of \$1.5 million paid in the previous year. A multi-family 99 unit residential apartment community located in Mansfield, TX for a total purchase price of \$14.8 million, paid through a seller's financing note of \$2.3 million, and an issuance of a note payable of \$11.0 million. A multi-family 200 unit residential apartment community located in Gulf Shores, AL for a total purchase price of \$18.1 million, paid through an issuance of a note payable of \$11.5 million. A multi-family 144 unit residential apartment community located in Beaumont, TX for a total purchase price of \$12.3 million. A multi-family 240 unit residential apartment community located in Houma, LA for a total purchase price of \$20.1 million. A multi-family 208 unit residential apartment community located in Texarkana, TX for a total purchase price of \$14.7 million. A multi-family 160 unit residential apartment community located in Tupelo, MS for a total purchase price of \$11.1 million.

Sales

For the year ended December 31, 2018, one of our subsidiaries sold 62 acres of land to an independent third party for a total sales price of \$3.0 million and recorded a gain of \$1.3 million. In the second quarter, a golf course comprising approximately 96.09 acres sold for an aggregate sales price of \$2.3 million, out of which, \$0.6 million was received in cash and \$1.7 million in note receivables. During the first quarter, the Company sold six income-producing properties to a related party for an aggregate purchase price of \$8.5 million, out of which, \$2.1 million was received in cash and \$6.4 million in note receivables. During the fourth quarter, the Company sold one income-producing property to a related party for a purchase price of \$2.2 million. No gain or loss was recorded from the sale of income-producing properties.

In addition, on November 19, 2018, TCI contributed fifty-two properties to the joint venture VAA in exchange for a voting and profit participation right of 50% and 49%, respectively. In consideration for the contributed properties, the Company received \$236.8 million from our joint venture partner Macquarie, and recognized a gain of approximately \$154.1 million.

Mercer Crossing

In addition to the real estate sales noted above the Company recorded sales from a development project known as Mercer Crossing.

At November 2015, our real estate land holdings at Mercer Crossing consisted of land developable into residential homes and commercial projects, located in Farmers Branch, Texas. In November 2015, the Company entered into a sales contract with an unrelated party. The contract was for all of the developable land owned by the Company. In addition, IOR and ARL also sold land in this transaction. Total consideration for the sale was \$75 million. The agreement among the parties to this transaction provides for TCI to hold the subordinated note from the buyer in the amount of \$50 million. At the closing, due to the inadequate down payment from the buyer and the level of seller financing involved, the transaction was accounted for under the deposit method. Under the deposit method, no revenue is recognized and the asset sold remains on the books until the criteria for full revenue recognition are met.

During the third quarter of 2018, due to significant cumulative sales of real estate to unrelated third parties and cash received by TCI, the criteria for recording full accrual accounting had been met. Through the period ended August 21, 2018 approximately \$28.1 million of the assets previously held by the Company were sold, resulting in a gain of \$7.5 million.

On August 22, 2018 the Company reacquired all the unsold portions of the real estate from the November 2015 transaction for the amount that remained from the original sales price.

During the period August 23, 2018 through December 31, 2018 additional Mercer Crossing real estate was sold for \$11.7 million resulting in a net gain on sale of real estate of \$5.6 million.

As of December 31, 2018, the Company has approximately 86 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as “subject to sales contract” on the Consolidated Balance Sheets. Due to the related party nature of the transactions TCI has deferred the recording of the sales in accordance with ASC 360-20.

We continue to invest in the development of apartment projects. During the year ended December 31, 2018, we have invested \$14.8 million related to the construction or predevelopment of various apartment complexes and capitalized \$0.1 million of interest costs.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in residential and commercial real estate through the acquisition, development and ownership of apartments, commercial properties, and land. We intend to achieve this objective through acquiring and developing properties in multiple markets and operating as an industry-leading landlord. We believe this objective will provide the benefits of enhanced investment opportunities, economies of scale and risk diversification, both in terms of geographic market and real estate product type. We believe our objective will also result in continuing access to favorably priced debt and equity capital. In pursuing our business objective, we seek to achieve a combination of internal and external growth while maintaining a strong balance sheet and employing a strategy of financial flexibility. We maximize the value of our apartments and commercial properties by maintaining high occupancy levels while charging competitive rental rates, controlling costs and focusing on tenant retention. We also pursue attractive development opportunities either directly or in partnership with other investors.

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

We seek to acquire properties consistent with our business objectives and strategies. We execute our acquisition strategy by purchasing properties which management believes will create stockholder value over the long-term. We will also sell properties when management believes value has been maximized or when a property is no longer considered an investment to be held long-term.

We are continuously in various stages of discussions and negotiations with respect to development, acquisition, and disposition projects. The consummation of any current or future development, acquisition, or disposition, if any, and the pace at which any may be completed cannot be assured or predicted.

Substantially all of our properties are owned by subsidiary companies, many of which are single-asset entities. This ownership structure permits greater access to financing for individual properties and permits flexibility in negotiating a sale of either the asset or the equity interests in the entity owning the asset. From time-to-time, our subsidiaries have invested in joint ventures with other investors, creating the possibility of risks that do not exist with properties solely owned by an ARL subsidiary. In those instances where other investors are involved, those other investors may have business, economic, or other objectives that are inconsistent with our objectives, which may in turn require us to make investment decisions different from those if we were the sole owner.

Real estate generally cannot be sold quickly. We may not be able to promptly dispose of properties in response to economic or other conditions. To offset this challenge, selective dispositions have been a part of our strategy to maintain an efficient investment portfolio and to provide additional sources of capital. We finance acquisitions through mortgages, internally generated funds, and, to a lesser extent, property sales. Those sources provide the bulk of funds for future acquisitions. We may purchase properties by assuming existing loans secured by the acquired property. When properties are acquired in such a manner, we customarily seek to refinance the asset in order to properly leverage the asset in a manner consistent with our investment objectives.

Our businesses are not generally seasonal with regard to real estate investments. Our investment strategy seeks both current income and capital appreciation. Our plan of operation is to continue, to the extent our liquidity permits, to make equity investments in income-producing real estate such as apartments, and commercial properties. We may also invest in the debt or equity securities of real estate-related entities. We intend to pursue higher risk, higher reward investments, such as improved and unimproved land where we can obtain reasonably-priced financing for substantially all of a property's purchase price. We intend to continue the development of apartment properties in selected markets in Texas and in other locations where we believe adequate levels of demand exist. We intend to pursue sales opportunities for properties in stabilized real estate markets where we believe our properties' value has been maximized. We also intend to be an opportunistic seller of properties in markets where demand exceeds current supply. Although we no longer actively seek to fund or purchase mortgage loans, we may, in selected instances, originate mortgage loans or we may provide purchase money financing in conjunction with a property sale.

Our Board of Directors has broad authority under our governing documents to make all types of investments, and we may devote available resources to particular investments or types of investments without restriction on the amount or

percentage of assets that may be allocated to a single investment or to any particular type of investment, and without limit on the percentage of securities of any one issuer that may be acquired. Investment objectives and policies may be changed at any time by the Board without stockholder approval.

The specific composition from time-to-time of our real estate portfolio owned by ARL directly and through our subsidiaries depends largely on the judgment of management to changing investment opportunities and the level of risk associated with specific investments or types of investments. We intend to maintain a real estate portfolio that is diversified by both location and type of property.

Competition

The real estate business is highly competitive and we compete with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. “Certain Relationships and Related Transactions, and Director Independence”), some of which have greater financial resources than ARL. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. “Risk Factors”.

To the extent that ARL seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate owners and financial institutions also attempting to sell properties in areas where ARL's properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

As described above and in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence," the officers and directors of ARL serve as officers and directors of TCI and IOR. TCI and IOR have business objectives similar to those of ARL. ARL's officers and directors owe fiduciary duties to both IOR and TCI as well as to ARL under applicable law. In determining whether a particular investment opportunity will be allocated to ARL, IOR, or TCI, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company's existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

In addition, as described in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence," ARL competes with related parties of Pillar having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Pillar has informed ARL that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

We have historically engaged in and will continue to engage in certain business transactions with related parties, including but not limited to asset acquisitions and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interests of the Company.

Available Information

ARL maintains an Internet site at www.americanrealtyinvest.com. Available through the website, free of charge, are Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16, and amendments to those reports, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. In addition, we have posted the charters for the Audit Committee, Compensation Committee, and Governance and Nominating Committee, as well as the Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence, and other information on the website. These charters and principles are not incorporated in this report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A.

RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

Risk Factors Related to our Business

Adverse events concerning our existing tenants or negative market conditions affecting our existing tenants could have an adverse impact on our ability to attract new tenants, release space, collect rent or renew leases, and thus could adversely affect cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which the Company has limited or no control, such as:

- lack of demand for space in areas where the properties are located;
- inability to retain existing tenants and attract new tenants;
- oversupply of or reduced demand for space and changes in market rental rates;
- defaults by tenants or failure to pay rent on a timely basis;
- the need to periodically renovate and repair marketable space;
- physical damage to properties;
- economic or physical decline of the areas where properties are located; and
- potential risk of functional obsolescence of properties over time.

At any time, any tenant may experience a downturn in its business that may weaken its financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant's lease and material losses to the Company.

If tenants do not renew their leases as they expire, we may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is re-let, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance, and debt service payments, are not necessarily reduced when circumstances cause a decrease in rental income from the properties.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, operating results could be adversely affected.

We may experience increased operating costs which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping, repairs, and maintenance of the properties. While some current tenants are obligated by their leases to reimburse us for a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets to offset the increased expenses, without at the same time decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service indebtedness could be adversely affected.

Our ability to achieve growth in operating income depends in part on its ability to develop additional properties.

We intend to continue to develop properties where warranted by market conditions. We have a number of ongoing development and land projects being readied for commencement.

Additionally, general construction and development activities include the following risks:

construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;

construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;

some developments may fail to achieve expectations, possibly making them less profitable;

we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;

we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs

of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;

we may expend funds on and devote management's time to projects which will not be completed; and

occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

We acquire individual properties and various portfolios of properties and intend to continue to do so. Acquisition activities are subject to the following risks:

when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with limited recourse, with respect to unknown liabilities. However, if an unknown liability was later asserted against the acquired properties, we might be required to pay substantial sums to settle it, which could adversely affect cash flow.

Many of our properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in specific geographic areas in the southwestern, southeastern, and mid-western United States. The Company's overall performance is largely dependent on economic conditions in those regions.

Our investments in joint ventures may decrease our ability to manage risk.

We conduct some of our operations through a joint venture in which we share control over certain economic and business interests with our joint venture partner. Our joint venture partner may have economic, business or legal interests or goals that are inconsistent with our goals and interests or may be unable to meet their obligations. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and adversely affect our business, financial condition, results of operations and cash flows.

We are leveraged and may not be able to meet our debt service obligations.

We had total indebtedness, including bonds and notes payable, at December 31, 2018 of approximately \$445 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business

opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of our capital needs, including capital for acquisitions and development. The public debt and equity markets are also among the sources upon which the Company relies. There is no guarantee that we will be able to access these markets or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

general economic conditions affecting these markets;

our own financial structure and performance;

the market's opinion of real estate companies in general; and

the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to the Company's indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

We anticipate only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or the terms of any refinancing will not be as favorable as the terms of the maturing debt. If principal balances due at maturity cannot be refinanced, extended, or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity capital, cash flow may not be sufficient to repay all maturing debt in years when significant "balloon" payments come due.

Our credit facilities and unsecured debt contain customary restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, and minimum ratios of unencumbered assets to unsecured debt. Our continued ability to borrow is subject to compliance with financial and other covenants. In addition, failure to comply with such covenants could cause a default under credit facilities, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available, or be available only on terms that are detrimental to the Company.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the general economy.

An increase in interest rates would increase interest costs on variable rate debt and could adversely impact the ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will the interest costs, which could adversely affect cash flow and the ability to pay principal and interest on our debt and the ability to make distributions to shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

Unbudgeted capital expenditures or cost overruns could adversely affect business operations and cash flow.

If capital expenditures for ongoing or planned development projects or renovations exceed expectations, the additional cost of these expenditures could have an adverse effect on business operations and cash flow. In addition, we might not have access to funds on a timely basis to pay for the unexpected expenditures.

Construction costs are funded in large part through construction financing, which the Company may guarantee. The Company's obligation to pay interest on this financing continues until the rental project is completed, leased-up and permanent financing is obtained, or the project is sold, or the construction loan is otherwise paid. Unexpected delays in completion of one or more ongoing projects could also have a significant adverse impact on business operations and cash flow.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period desired, or whether we will be able to sell the assets at a price that will allow the Company to fully recoup its investment. We may not be able to realize the full potential value of the assets and may incur costs related to the early extinguishment of the debt secured by such assets.

We intend to devote resources to the development of new projects.

We plan to continue developing new projects as opportunities arise in the future. Development and construction activities entail a number of risks, including but not limited to the following:

we may abandon a project after spending time and money determining its feasibility;

construction costs may materially exceed original estimates;

the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;

we may not be able to obtain financing on favorable terms for development of a property, if at all;

we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs;
and

we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;

changes in interest rates may make the ability to satisfy overall debt service requirements more burdensome;

lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;

changes in real estate and zoning laws;

increases in real estate taxes and insurance costs;

federal or local regulations or rent controls;

acts of terrorism, and

hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

downturns in the national, regional and local economic conditions (particularly increases in unemployment);

competition from other office, apartment and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for office, apartments or other commercial space;

changes in interest rates and availability of financing;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;

declines in the financial condition of our tenants and our ability to collect rents from our tenants; and

decreases in the underlying value of our real estate.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Real estate investments are illiquid, and the Company may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely impacting our ability to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2018, our portfolio consisted of sixteen income-producing properties consisting of nine apartment communities totaling 1,489 units, seven commercial properties consisting of five office buildings and two retail centers. In addition, we own or control 2,346 acres of improved and unimproved land held for future development or sale. The average annual rental and other property revenue dollar per square foot is \$6.53 for the Company's residential apartment portfolio and \$19.80 for the commercial portfolio. Through our joint venture VAA we have a 50 percent ownership interest to a portfolio of forty-nine income-producing properties with a total of 9,192 units, which generated an average annual rental revenue of \$12.83 per square foot.

The table below shows information relating to those properties in which we own or have an ownership interest, all of which are suitable and adequate for the purpose for which each is utilized:

Residential Apartments	Location	Units	Occupancy	
Chelsea	Beaumont, TX	144	95.14	%
Farnham Park	Port Arthur, TX	144	94.44	%
Landing Bayou	Houma, LA	240	77.08	%
Legacy at Pleasant Grove	Texarkana, TX	208	91.83	%
Toulon	Gautier, MS	240	99.17	%
Villager	Fort Walton, FL	33	100.00	%
Villas at Bon Secour	Gulf Shores, AL	200	99.00	%
Vista Ridge	Tupelo, MS	160	93.75	%
Westwood	Mary Ester FL	120	99.17	%
9	Total Apartment Units	1,489		

Office Buildings	Location	SqFt	Occupancy	
600 Las Colinas	Irving, TX	512,210	86.75	%
770 South Post Oak	Houston, TX	95,329	86.95	%
Browning Place (Park West I)	Farmers Branch, TX	625,378	98.15	%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00	%
Stanford Center	Dallas, TX	333,234	97.79	%
5	Total Office Buildings	1,568,963		

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Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	89.45 %
Fruitland Park	Fruitland Park, FL	6,722	100.00 %
2	Total Retail Centers	128,927	
	Total Commercial	1,697,890	

Our joint venture investee VAA owns and manages the following residential properties:

Residential Apartments	Location	Units	Occupancy %
Abode Red Rock Apts	Las Vegas, NV	308	41.60 %
Apalachee Point Villas Apartments	Tallahassee, FL	200	96.24 %
Blue Lake Villas Apts	Waxahachie, TX	186	93.25 %
Blue Lake Villas Apts Phase II	Waxahachie, TX	70	92.92 %
Breakwater Bay Apts.	Beaumont, TX	176	92.72 %
Bridgewood Ranch Apts	Kaufman, TX	106	95.75 %
Capitol Hill Apts	Little Rock, AR	156	92.80 %
Centennial Village Apts	Oak Ridge, TN	252	91.00 %
Crossings at Opelika Apts	Opelika, AL	168	94.83 %
Dakota Arms Apts	Lubbock, TX	208	93.23 %
Desoto Ranch Apts	DeSoto, TX	248	92.21 %
Eagle Crossing Apartments	Dallas, TX	150	95.46 %
Falcon Lake Apts	Arlington, TX	248	94.67 %
Heather Creek Apts	Mesquite, TX	200	93.76 %
Lake Forest Apts	Humble, TX	240	94.29 %
Lodge at Pecan Creek Apts	Denton, TX	192	89.05 %
Lofts at Reynolds Apts	Asheville, NC	201	93.90 %
Mansions Of Mansfield Apts	Mansfield, TX	208	97.38 %
McKinney Point Apartments	McKinney, TX	198	95.24 %
Metropolitan Apts	Little Rock, AR	260	92.41 %
Mission Oaks Apts	San Antonio, TX	228	94.09 %
Northside on Travis Apts	Sherman, TX	200	94.00 %
Oak Hollow Phase I Apts	Seguin, TX	160	92.81 %
Oak Hollow Phase II Apts	Seguin, TX	96	86.74 %
Oceanaire Apartments	Biloxi, MS	196	93.87 %
Overlook At Allensville Square Apts Phase I	Sevierville, TN	144	95.26 %
Parc at Wylie Apartments	Wylie, TX	198	92.99 %
Parc at Bentonville Apartments	Bentonville, AR	216	88.96 %
Parc at Clarksville Apts	Clarksville, TN	168	95.21 %
Parc at Denham Springs Apts Phase I	Denham Spring, LA	224	90.78 %
Parc at Garland Apartments	Garland, TX	198	94.97 %
Parc at Mansfield Apts	Mansfield, TX	99	96.65 %
Parc at Maumelle Apts	Little Rock, AR	240	90.18 %
Parc at Metro Center Apts	Nashville, TN	144	98.61 %
Parc at Rogers Apts	Rogers, AR	250	94.82 %
Preserve at Pecan Creek Apts	Denton, TX	192	95.13 %
Preserve at Prairie Pointe Apts	Lubbock, TX	184	93.65 %
Residences at Holland Lake Apts	Weatherford, TX	208	95.08 %
Sawgrass Creek Apartments Phase I	New Port Richey, FL	188	30.57 %
Sonoma Court Apts	Rockwall, TX	124	93.35 %
Sugar Mill Apts, Phase I	Baton Rouge, LA	160	89.25 %
Sugar Mill Apts, Phase II	Addis, LA	80	87.95 %
Tattersall Village Apartments	Hinesville, GA	222	90.03 %
Tradewinds Apts	Midland, TX	214	97.31 %
Villas of Park West Apts Phase I	Pueblo, CO	148	91.84 %

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Villas of Park West Apts Phase II	Pueblo, CO	112	94.53	%
Vistas Of Vance Jackson Apts	San Antonio, TX	240	92.35	%
Waterford at Summer Park Apts	Rosenberg, TX	196	96.50	%
Windsong Apts	Fort Worth, TX	188	96.15	%
49	Total Apartment Units	9,192		

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Commercial Lease Expirations

The table below shows the lease expirations of the commercial properties over a nine-year period and thereafter:

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet	Percentage of Gross Rentals		
2019	250,228	\$ 4,392,415	\$ 17.55	14.7	%	14.3	%
2020	132,376	2,786,951	21.05	7.8	%	9.1	%
2021	135,017	2,800,861	20.74	8.0	%	9.1	%
2022	237,489	5,184,674	21.83	14.0	%	16.9	%
2023	339,701	5,717,047	16.83	20.0	%	18.6	%
2024	237,549	4,979,956	20.96	14.0	%	16.2	%
2025	113,829	2,604,020	22.88	6.7	%	8.5	%
2026	23,432	609,232	26.00	1.4	%	2.0	%
Thereafter	56,926	1,627,426	28.59	3.4	%	5.3	%
Total	1,526,547	\$ 30,702,582	\$	90	%	100	%

Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, (1)2018, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

The table below shows information related to the land parcels we own as of December 31, 2018:

Land	Location	Acres
2427 Valley View Ln	Farmers Branch, TX	0.31
Bonneau Land	Farmers Branch, TX	8.39
Cooks Lane	Fort Worth, TX	23.24
Dedaux	Gulfport, MS	10.00
Dominion Mercer	Farmers Branch, TX	5.29
Gautier	Gautier, MS	3.46
Lacy Longhorn	Farmers Branch, TX	5.08
Lake Shore Villas	Humble, TX	19.51
Lubbock	Lubbock, TX	2.86
McKinney 36	Collin County, TX	19.17

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Mininvest	Dallas, TX	0.23
Mira Lago	Farmers Branch, TX	10.96
Nashville	Nashville, TN	6.25
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Texas Plaza	Irving, TX	10.33
Travis Ranch	Kaufman County, TX	8.66
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad	Dallas, TX	0.04
Valley View 34	Farmers Branch, TX	2.19
Whorton Land	Bentonville, AR	64.44
Willowick	Pensacola, FL	39.78
Windmill Farms	Kaufman County, TX	1,855.63
	Total Land/Development	2,117.10

Land Subject to Sales Contract	Location	Acres
Dominion Tract	Farmers Branch, TX	10.59
Windmill Farms	Kaufman County, TX	108.00
Mercer Crossing	Farmers Branch, TX	110.68
Total Land Subject to Sales Contract		229.27
	Total Land	2,346.37

ITEM 3. LEGAL PROCEEDINGS

ART and ART Midwest, Inc.

While the Company and all entities in which the Company has a direct or indirect equity interest are not parties to or obligated in any way for the outcome, a formerly owned entity (American Realty Trust, Inc.) and its former subsidiary (ART Midwest, Inc.) have been engaged since 1999 in litigation with Mr. David Clapper and entities related to Mr. Clapper (collectively, the “Clapper Parties”). The matter originally involved a transaction in 1998 in which ART Midwest, Inc. was to acquire eight residential apartment complexes from the Clapper Parties. Through the years, a number of rulings, both for and against American Realty Trust, Inc. “ART” and ART Midwest, Inc., were issued. In October 2011, a ruling was issued under which the Clapper Parties received a judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million interest. The ruling was against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties, but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. Subsequently, the trial court recalculated the damage award, reducing it to approximately \$59 million, inclusive of actual damages and then current interest. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in this matter.

The Clapper Parties subsequently filed a new lawsuit against ARI, its subsidiary EQK Holdings, Inc. “EQK”, and ART. The Clapper Parties seek damages from ARL for payment by ART to ARL of ART’s stock in EQK in exchange for a release of the Antecedent Debt owed by ART to ARI. In February 2018 the court determined that this legal matter should not have been filed in federal court and therefore granted motions to dismiss on jurisdictional grounds. The company has no knowledge as to whether the plaintiffs will attempt to refile their lawsuit in a state court.

In 2005, ART filed suit against a major national law firm over the initial transaction. That action was initially abated while the principal case with the Clapper Parties was pending, but the abatement was recently lifted. The trial court subsequently dismissed the case on procedural grounds, but ART has filed a notice of appeal. The appeal was heard in February 2018 and we are awaiting a ruling by the appeals court. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of \$10 million. At December 31, 2012, the Company fully reserved and valued such note at zero. In February 2018 the court determined that this legal matter should not have been filed in federal court and therefore dismissed the lawsuit. The company has no knowledge as to whether the plaintiffs will attempt to refile their lawsuit in a state court.

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors,

Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust (“CMET”), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, \$160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. (“Basic”).

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for “lost opportunity,” as well as damages in favor of ART and in favor of TCI and its subsidiaries for “increased costs” and “lost opportunity.” The original Trial Court judge ignored the jury’s findings, however, and entered a “Judgment Notwithstanding the Verdict” (“JNOV”) in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury’s findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic \$0.256 million in damages, plus pre-judgment interest of \$0.192 million for a total amount of \$0.448 million. The Judgment awarded ART \$14.2 million in damages, plus pre-judgment interest of \$10.6 million for a total amount of \$24.8 million. The Judgment awarded TCI \$11.1 million, plus pre-judgment interest of \$8.4 million for a total amount of \$19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages are paid. Lastly, the Judgement awarded Basic, ART, and TCI \$1.6 million collectively in attorneys’ fees from Dynex Commercial, Inc.

The Company is working with counsel to identify assets and collect on the Final Judgment against Dynex Commercial, Inc., as well as explore possible additional claims, if any, against Dynex Capital, Inc.

Berger Litigation

On February 4, 2019, an individual claiming to be a stockholder holding 7,900 shares of Common Stock of Income Opportunity Realty Investors, Inc. (“**IOR**”) filed a Complaint in the United States District Court for the Northern District of Texas, Dallas Division, individually and allegedly derivatively on behalf of IOR, against Transcontinental Realty Investors, Inc. (“**TCI**”), American Realty Investors, Inc. (“**ARL**”), (TCI is a shareholder of IOR, ARL is a shareholder of TCI) Pillar Income Asset Management, Inc. (“**Pillar**”), (collectively the “Companies”), certain officers and directors of the Companies (“Additional Parties”) and two other individuals. The Complaint filed alleges that the sale and/or exchange of certain tangible and intangible property between the Companies and IOR during the last ten years of business operations constitutes a breach of fiduciary duty by the one or more of Companies, the Additional Defendants and/or the directors of IOR. The case alleges other related claims. The Plaintiff seeks certification as a representative of IOR and all of its shareholders, unspecified damages, a return to IOR of various funds and an award of costs, expenses, disbursements (including Plaintiff’s attorneys’ fees) and prejudgment and post-judgment interest. The named Defendants intend to vigorously defend the action, deny all of the allegations of the Complaint, and believe the allegations to be wholly without any merit. While only in the early stages of defending the case, it is not clear that Plaintiff owns any shares of Common Stock of IOR or would be a proper representative of IOR or a class of minority stockholders.

Litigation. The ownership of property and provision of services to the public as tenants entails an inherent risk of liability. Although the Company and its subsidiaries are involved in various items of litigation incidental to and in the ordinary course of its business, in the opinion of management, the outcome of such litigation will not have a material adverse impact upon the Company’s financial condition, results of operation or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

ARL's common stock is listed and traded on the NYSE American under the symbol "ARL". The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the NYSE American for the quarters ended:

	2018		2017	
	High	Low	High	Low
First Quarter	\$21.57	\$11.70	\$9.85	\$5.17
Second Quarter	\$20.63	\$12.26	\$9.99	\$7.00
Third Quarter	\$19.00	\$14.50	\$8.95	\$8.00
Fourth Quarter	\$17.48	\$12.04	\$14.50	\$8.67

On March 28, 2019, the closing market price of ARL's common stock on the NYSE American \$12.20 per share, and was held by approximately 2,900 stockholders of record.

ARL's Board of Directors has established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the Board determined not to pay any dividends on common stock in 2018, 2017 or 2016. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

Under ARL's Amended Articles of Incorporation, 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock are authorized with a par value of \$2.00 per share and a liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are payable at the annual rate of \$1.00 per share, or \$.25 per share quarterly, to stockholders of record on the last day of each March, June, September, and December, when and as declared by the Board of Directors. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days.

On December 31, 2018, a stock transfer agreement was entered into between Realty Advisors, Inc. ("RAI") and TCI whereby TCI purchased from RAI 900,000 shares of Series A Preferred Stock for a total purchase price of approximately \$9 million. Also, as part of the agreement, TCI acquired accrued unpaid dividends on the 900,000

shares of Series A Preferred Stock of approximately \$9.9 million. At December 31, 2018, 1.8 million shares of Series A Convertible Preferred Stock have been eliminated in consolidation. Unpaid accrued dividends in the amount of \$9.9 million have also been eliminated in consolidation. After these eliminations, there are 614 shares outstanding of Series A Preferred Stock at December 31, 2018.

Under ARL's Amended Articles of Incorporation, 91,000 shares of Series D 9.50% Cumulative Preferred Stock are authorized with a par value of \$2.00 per share, and a liquidation preference of \$20.00 per share. Dividends are payable at the annual rate of \$1.90 per year or \$0.475 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. The Series D Preferred Stock is reserved for the conversion of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units may be exchanged for Series D Preferred Stock at the rate of 20 Class A units for each share of Series D Preferred Stock. There are no outstanding shares of Series D Preferred Stock. On January 12, 2018 Realty Advisors converted 200,000 preferred shares, plus accrued dividends into 482,716 shares of common stock.

Under ARL's Amended Articles of Incorporation, 500,000 shares of Series E 6.0% Cumulative Preferred Stock are authorized with a par value \$2.00 per share and a liquidation preference of \$10.00 per share. Dividends are payable at the annual rate of \$0.60 per share or \$0.15 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. There are no Series E Preferred Stock outstanding. As an instrument amendatory to ARL's Amended Articles of Incorporation, 100,000 shares of Series J 8% Cumulative Convertible Preferred Stock have been designated pursuant to a Certificate of Designation filed March 16, 2006, with a par value of \$2.00 per share, and a liquidation preference of \$1,000 per share. Dividends are payable at the annual rate of \$80 per share, or \$20 per quarter, to stockholders of record on the last day of each of March, June, September and December, when and as declared by the Board of Directors. Although the Series J 8% Cumulative Convertible Preferred Stock has been designated, no shares have been issued.

The Company had 135,000 shares of Series K convertible preferred stock, which were held by TCI and used as collateral on a note. The note has been paid in full and the Series K preferred stock was cancelled May 7, 2014.

On September 1, 2000, the Board of Directors approved a share repurchase program authorizing the repurchase of up to a total of 1,000,000 shares of ARL common stock. This repurchase program has no termination date. In August 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,250,000 shares. There were no shares repurchased during the years ended December 31, 2018 and 2017.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data derived from our audited financial statements for each of the five years in the period ended December 31, 2018. The data presented below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in Part II, Item 7 of this Annual Report and the consolidated financial statements and the accompanying notes set forth in Part II, Item 8 of this Annual Report.

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Rental and other property revenues	\$ 120,956	\$ 126,221	\$ 119,663	\$ 104,188	\$ 79,412
Total operating expenses	107,071	108,793	105,029	97,880	82,611
Operating income (loss)	13,885	17,428	14,634	6,308	(3,199)
Other expenses	(1,513)	(47,706)	(36,325)	(31,622)	(15,511)
Income (loss) before gain on disposition of 50% interest in VAA, gain on land sales, non-controlling interest, and taxes	12,372	(30,278)	(21,691)	(25,314)	(18,710)
Gain on disposition of 50% interest in VAA	154,126	—	—	—	—
Gain on income producing properties	—	16,698	16,207	—	—
Gain on land sales	17,404	4,884	3,121	21,648	561
Income tax (expense) benefit	(1,210)	(180)	(46)	(517)	20,413
Net income (loss) from continuing operations	182,692	(8,876)	(2,409)	(4,183)	2,264
Net income (loss) from discontinuing operations	—	—	(1)	896	37,909
Net income (loss)	182,692	(8,876)	(2,410)	(3,287)	40,173
Net (income) loss attributable to non-controlling interest	(8,993)	445	(322)	1,327	(9,288)
Net income (loss) attributable to American Realty Investors, Inc.	173,699	(8,431)	(2,732)	(1,960)	30,885
Preferred dividend requirement	(901)	(1,105)	(1,101)	(1,216)	(2,043)
Net income (loss) applicable to common shares	\$ 172,798	\$ (9,536)	\$ (3,833)	\$ (3,176)	\$ 28,842
PER SHARE DATA					
Earnings per share - basic					
Income (loss) from continuing operations	\$ 10.81	\$ (0.61)	\$ (0.25)	\$ (0.27)	\$ (0.71)
Income (loss) from discontinued operations	—	—	—	0.06	2.99
Net income (loss) applicable to common shares	\$ 10.81	\$ (0.61)	\$ (0.25)	\$ (0.21)	\$ 2.28
Weighted average common shares used in computing earnings per share	15,982,528	15,514,360	15,514,360	15,111,107	12,683,956
Earnings per share - diluted					

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Income (loss) from continuing operations	\$ 10.81	\$(0.61) \$(0.25) \$(0.27) \$(0.71)
Income from discontinued operations	—	—	—	0.06	2.99	
Net income (loss) applicable to common shares	\$ 10.81	\$(0.61	) \$(0.25	) \$(0.21	) \$2.28	
Weighted average common shares used in computing diluted earnings per share	15,982,528	15,514,360	15,514,360	15,111,107	12,683,956	

BALANCE SHEET DATA

Real estate, net	\$381,043	\$988,117	\$901,006	\$853,507	\$699,763
Notes and interest receivable, net	126,058	112,095	126,564	120,243	134,366
Investment in VAA	68,399	—	—	—	—
Total assets	826,149	1,296,720	1,174,909	1,117,368	965,498
Notes and interest payable	286,968	901,083	851,095	804,760	659,059
Bonds and interest payable	158,574	113,049	—	—	—
Shareholders' equity	321,127	165,883	176,131	176,889	179,588
Book value per share	20.09	10.69	11.35	11.71	14.16

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words "anticipate", "believe", "expect", "intend", "may", "might", "plan", "estimate", "project", "should", "will", "result" and similar expressions relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-K, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. Other sections of this report, including Part I, Item 1A. "Risk Factors," include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, and office buildings. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during 2018 we acquired \$103.1 million and sold \$57.9 million of land and income-producing properties. As of December 31, 2018, we owned 1,489 units in nine residential apartment communities, and seven commercial properties comprising approximately 1.7 million rentable square feet. In addition, we own 2,346 acres of land held for development. The Company currently owns income-producing properties and land in six states.

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. We will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in some of our wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants.

We have historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in our best interest.

Since April 30, 2011, Pillar is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for ARL's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual Advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. See Part III, Item 10. “Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage”. The Company contracts with third-party companies to lease and manage our apartment communities.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”). The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. Our investment in Gruppo Florentina, LLC is accounted for under the equity method.

The Company, in accordance with the VIE guidance in ASC 810 “Consolidations,” consolidated nine multifamily residential properties at December 31, 2018 and fifty-one at December 31, 2017, located throughout the United States ranging from 153 units to 496 units. Assets totaling approximately \$459 million and approximately \$1.2 billion at December 31, 2018 and 2017, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, “above-market” and “below-market” leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 “Business Combinations”, and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants’ credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired “above-market” and “below-market” leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management’s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant’s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Depreciation and Impairment

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. Fair value is determined by a recent appraisal, comparable based upon prices for similar assets, executed sales contract, a present value and/or a valuation technique based upon a multiple of earnings or revenue. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. We did not record any impairment charges for the years ended December 31, 2018 and 2017.

Real Estate Assets Held for Sale

We classify properties as held for sale when certain criteria are met in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. We did not have any real estate assets classified as held for sale at December 31, 2018 or 2017.

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in Item 1 “Significant Real Estate Acquisitions/Dispositions and Financing.” Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt, if appropriate, and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets.”

Investment in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-market” and “below-market” leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a “gross” basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales and the associated gains or losses of real estate are recognized in accordance with the provisions of ASC Topic 360-20, “Property, Plant and Equipment – Real Estate Sale”. The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest Recognition on Notes Receivable

We record interest income as earned in accordance with the terms of the related loan agreements.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 5 "Notes and Interest Receivable" for details on our notes receivable.

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures," to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1 Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Related parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up (80% or more) and is held the entire period for both years under comparison, it is considered to be included in the same property portfolio. Income-producing properties that we have sold during the year are reclassified to discontinuing operations for all periods presented. The other segment consists of revenue and operating expenses

related to the notes receivable and corporate entities.

The following discussion is based on our Consolidated Statements of Operations for the year ended December 31, 2018, 2017 and 2016 as included in Part II, Item 8. "Consolidated Financial Statements and Supplementary Data." Continued operations relates to income-producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2018, 2017 and 2016, we owned or had interests in a portfolio of nine, fifty-nine and fifty-nine income-producing properties, respectively. The total property portfolio represents all income-producing properties held as of December 31 for the year presented. The table below shows the number of income-producing properties held by year.

	2018	2017	2016
Continued operations	9	59	59
Total property portfolio	9	59	59

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017:

For the year ended December 31, 2018, we reported net income applicable to common shares of \$172.8 million or \$10.81 diluted earnings per share compared to a net loss applicable to common shares of \$9.5 million or (\$0.61) diluted earnings per share for the year ended December 31, 2017. The current year net income applicable to common shares of \$172.8 million includes a gain of approximately \$154.1 million from the disposition of 50% interest in VAA. Current year net income also includes gain on sales of land of \$17.4 million and no gain on sales of income-producing properties, compared to the prior year net loss which included gain on sales of income producing properties of \$16.7 million and gain on land sales of \$4.9 million.

Revenues

Rental and other property revenues were \$121.0 million for the year ended December 31, 2018. This represents a decrease of \$5.2 million compared to the prior year revenues of \$126.2 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

Expenses

Property operating expenses were \$59.6 million for the year ended December 31, 2018. This represents a decrease of \$4.5 million, compared to prior year operating expenses of \$64.1 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

Depreciation and amortization expenses were \$22.7 million for the year ended December 31, 2018. This represents a decrease of \$3.0 million compared to prior year depreciation of \$25.7 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

General and administrative expenses were \$12.7 million for the year ended December 31, 2018. This represents an increase of \$5.0 million compared to the prior year expenses of \$7.7 million. The increase in general and administrative expenses was due primarily to an increase in fees paid to our Advisors of approximately \$1.5 million, general fees of approximately \$1.5 million associated with finalizing the formation of the joint venture, legal and regulatory fees of \$0.8 million and general and professional fees of approximately \$1.0 million.

Net income fee was \$0.6 million for the year ended December 31, 2018. This represents an increase of \$0.3 million compared to the prior year net income fee of \$0.3 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$11.5 million for the year ended December 31, 2018. This represents an increase of \$0.4 million compared to the prior year advisory fees of \$11.1 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$21.6 million for the year ending December 31, 2018 compared to \$18.9 million for the year ended December 31, 2017, an increase of \$2.7 million. This increase was primarily due to an increase of \$3.6 million in interest on receivable owed from our Advisors, offset by a decrease of \$0.9 in interest on notes receivable from other related parties.

Mortgage and loan interest expense was \$66.1 million for the year ended December 31, 2018. This represents an increase of \$0.1 million compared to the prior year expense of \$66.2 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

No gain on sales of income producing properties was recognized during the year ended December 31, 2018. Gain on sale of income-producing properties was \$16.7 million for the year ended December 31, 2017.

Gain on land sales was \$17.4 million and \$4.9 million for the years ended December 31, 2018 and 2017, respectively. The increase of approximately \$12.5 million was primarily due to sales of land at Mercer Crossing recognized in 2018.

Other income was \$28.9 million and \$4.1 million for the years ended December 31, 2018 and 2017, respectively. The increase of \$24.8 million was primarily due to a \$17.6 million gain recognized in September 2018 for deferred income associated with the sale of assets, as well as insurance proceeds of approximately \$7.6 million received subsequent to the sale of Mahogany Run Golf Course.

Gain on disposition of 50% interest in VAA was \$154.1 million for the year ended December 31, 2018 as a result of the contribution of fifty-two properties to the joint venture VAA (Refer to Note 2 "Investment in VAA").

Comparison of the year ended December 31, 2017 to the year ended December 31, 2016:

For the year ended December 31, 2017, we reported net loss applicable to common shares of \$9.5 million or (\$0.61) per diluted earnings per share compared to a net loss applicable to common shares of \$3.8 million or (\$0.25) per diluted earnings per share for the year ended December 31, 2016. The current year net loss applicable to common shares of \$9.5 million includes gain on income-producing properties of \$16.7 million and gain on land sales of \$4.9 million compared to the prior year net loss applicable to common shares of \$3.8 million which includes gain on land sales of \$3.1 million.

Revenues

Rental and other property revenues were \$126.2 million for the year ended December 31, 2017. This represents an increase of \$6.5 million compared to the prior year revenues of \$119.7 million. The change by segment is an increase in the apartment portfolio of \$6.2 million and an increase in the commercial portfolio of 0.3 million, partially offset by a decrease of \$0.1 million in the other portfolio. We purchased four apartment communities during the year ended December 31, 2016, which produced rental revenue of \$8.3 million and \$2.0 million during the years ended December 31, 2017 and 2016, respectively, for a net increase of \$6.3 million. In addition, we purchased one apartment property during 2017 that produced \$0.8 million in rental revenue.

Expenses

Property operating expenses were \$64.1 million for the year ended December 31, 2017. This represents an increase of \$1.1 million compared to the prior year operating expenses of \$63.0 million. The change by segment is an increase in the apartment portfolio of \$2.9 million, a decrease in the commercial portfolio of \$1.9 million and a decrease in the land portfolio of \$0.9 million, partially offset by an increase in the other portfolio of \$1.0 million. The Company added a net 723 apartment units during 2016 and 201 units during 2017. Property operating expenses for our commercial portfolio decreased \$1.8 million. In addition, we had a decrease in property operating expenses for our land portfolio of \$1.0 million.

Depreciation and amortization expenses were \$25.7 million for the year ended December 31, 2017. This represents an increase of \$1.9 million compared to prior year depreciation of \$23.8 million. The increase is primarily due to the growth in our apartment portfolio which had an increase of \$2.3 million year-over-year.

General and administrative expenses were \$7.7 million dollars for the year ended December 31, 2017. This represents an increase of \$0.6 million compared to the prior year general and administrative expenses of \$7.1 million.

There was no provision for impairment of notes receivable, investment in real estate partnerships and real estate assets for the years ended December 31, 2017 and December 31, 2016.

Net income fee was \$0.3 million for the year ended December 31, 2017 and December 31, 2016. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$11.1 million for the year ended December 31, 2017. This represents an increase of \$0.2 million compared to the prior year advisory fees of \$10.9 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$18.9 million for the year ending December 31, 2017. This represents a decrease of \$1.6 million compared to the prior year interest income of \$20.5 million dollars. This decrease was primarily due to a decrease of \$2.3 in interest on notes receivable, partially offset by a \$1.3 million increase in interest on receivable owed from Advisor.

Other income was \$4.1 million for the year ending December 31, 2017. This represents an increase of \$2.0 million compared to prior year other income of \$2.1 million. The increase is primarily due to a property with a negotiated settlement of a debt with the lender during 2015.

Mortgage and loan interest expense was \$66.1 million for the year ended December 31, 2017. This represents an increase of \$6.7 million compared to the prior year expense of \$59.4 million. The change by segment is an increase in the other portfolio of \$7.4 million, an increase in the apartment portfolio of \$1.7 million and an increase in the commercial portfolio of \$0.3 million, partially offset by a decrease in the land portfolio of \$2.5 million. The increase in the apartment portfolio was primarily due to the acquisition of new properties, partially offset by the refinancing of five loans during 2016 at lower rates.

Gain on sale of income-producing properties was \$16.7 million, of that amount, \$14.1 million was attributable to recognition of deferred gains for the year ended December 31, 2017. During 2017, the Company sold one commercial property located in Mattoon, IL to an independent third party for a total sales price of \$5.1 million. We recorded an aggregate gain of \$2.6 million from the sale of this property. During 2016, the Company sold one apartment community located in Irving, Texas to an independent third party for a total sales price of \$8.1 million and one apartment community located in Topeka, Kansas to an independent third party for a total sales price of \$12.3 million. We recorded an aggregate gain of \$16.2 million from the sale of these two properties. The Company also sold an industrial warehouse consisting of approximately 177,805 square feet. The sale resulted in a loss of approximately \$0.2 million.

Gain on land sales was \$4.9 million and \$3.1 million for the years ended December 31, 2017 and 2016, respectively. During 2017, we sold 60.5 acres of land to an independent third party for total sales price of \$11.2 million. We recorded an aggregate \$4.9 million gain from the land sales. During 2016, we sold a combined 129.7 acres of land located in Forney, Texas, McKinney, Texas, Farmers Branch, Texas and Nashville, Tennessee to independent third parties for a total sales price of \$29.1 million. We recorded an aggregate \$3.1 million gain from the land sales.

Liquidity and Capital Resources

General

Our principal liquidity needs are:

fund normal recurring expenses;

meet debt service and principal repayment obligations including balloon payments on maturing debt;

fund capital expenditures, including tenant improvements and leasing costs;

fund development costs not covered under construction loans; and

fund possible property acquisitions.

Our principal sources of cash have been and will continue to be:

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collections of receivables from related companies;

refinancing of existing debt; and

additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock. Management anticipates that our cash as of December 31, 2018, along with cash that will be generated in 2019 from notes and interest receivables, will be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

Management reviews the carrying values of ARL's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. The property review generally includes: (1) selective property inspections, (2) a review of the property's current rents compared to market rents, (3) a review of the property's expenses, (4) a review of maintenance requirements, (5) a review of the property's cash flow, (6) discussions with the manager of the property, and (7) a review of properties in the surrounding area. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds

management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. "Consolidated Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	2018	2017	Variance
Net cash (used in) operating activities	\$(172,332)	\$(30,126)	\$(144,006)
Net cash provided by (used in) investing activities	147,625	(90,028)	237,653
Net cash provided by financing activities	42,784	152,771	(109,987)

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees and land holding costs. Our primary source of cash from operating activities is from rental income on properties.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income-producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. During the year ended December 31, 2018, we advanced \$16.8 million toward various notes receivable, purchased income-producing properties for \$10.6 million, and invested approximately \$85.1 million for the development of new properties and improvement of income producing properties. In addition, we received \$236.8 million from the formation of the joint venture with Macquarie. For the year ended December 31, 2017, we advanced \$15.7 million toward various notes receivable, purchased income-producing properties for \$37.0 million, and invested approximately \$76.1 million for the development of new properties and improvement of income producing properties, offset by proceeds from notes receivables of \$30.2 million.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. For the year ended December 31, 2018, the increase in cash flow from financing activities was due primarily to proceeds from borrowings of \$123.3 million, and proceeds received from the sale of nonconvertible Series B Bonds by Southern of \$59.2 million, offset by payments to our notes payable of \$124.6 million and the purchase by TCI of series A preferred stock for \$9.0 million. For the year ended December 31, 2017, the increase in cash flow from financing activities was due primarily to proceeds from borrowings of \$135.1 million, and proceeds from the issuance of Series A bonds for \$115.3 million, offset by payments to notes payable of \$86.1 million and bond issuance and financing costs payments of approximately \$10.5 million.

Equity Investments.

ARL has from time to time purchased shares of IOR and TCI. The Company may purchase additional equity securities of IOR and TCI through open market and negotiated transactions to the extent ARL's liquidity permits.

Equity securities of TCI held by ARL (and of IOR held by TCI) may be deemed "restricted securities" under Rule 144 of the Securities Act of 1933 ("Securities Act"). Accordingly, ARL may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce ARL's ability to realize the full fair value of such investments if ARL attempted to dispose of such securities in a short period of time.

Contractual Obligations

The following table represents our contractual obligations at December 31, 2018 (in thousands):

	Total	2019	2020	2021	2022	2023	Thereafter
Notes and interest payable ⁽¹⁾	\$416,708	\$60,767	\$19,925	\$53,010	\$44,553	\$38,451	\$200,002
Bonds and interest payable ⁽¹⁾	197,238	32,593	31,062	40,554	38,238	32,231	22,560
Total	\$613,946	\$93,360	\$50,987	\$93,564	\$82,791	\$70,682	\$222,562

⁽¹⁾ The notes and bonds contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the notes and bonds to become due immediately.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, ARL may be potentially liable for removal or remediation costs, as well as certain other potential costs relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on ARL's business, assets or results of operations.

Inflation

The effects of inflation on ARL's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect the sales values of properties and the ultimate gains to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings as well as the cost of variable interest rate debt will be affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

ARL's primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. ARL's future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2018, our outstanding notes payable consisted of approximately \$295.5 million, out of which \$253.6 million is fixed-rate debt and \$41.9 million is variable-rate debt with interest rates ranging from 2.5% to 9.75%. Our overall weighted average interest rate at December 31, 2018 and 2017 was 7.29% and 4.91%, respectively.

ARL's interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. ARL's earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for variable-rate debt average 100 basis points more in 2019 than they did during 2018, ARL's interest expense would increase and net income would decrease by approximately \$0.4 million. This amount is determined by considering the impact of hypothetical interest rates on ARL's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in ARL's financial structure.

The following table contains exposures that existed at December 31, 2018. Anticipation of exposures of risk on positions that could possibly arise was not considered. ARL's ultimate interest rate risk and its effect on operations will

depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars are in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Note Receivable							
Fixed interest rate - fair value							\$122,571
Instrument's maturities	\$18,203	\$38,030	\$174	\$—	\$—	\$66,164	\$122,571
Interest	11,192	6,323	3,950	4,383	4,383	39,445	\$69,676
Average Rate	9 %	8 %	9 %	8 %	8 %	8 %	%
Notes Payable:							
Variable Rate - fair value							\$41,892
Instrument's maturities	\$617	\$645	\$687	\$39,943	\$—	\$—	\$41,892
Interest	2,232	2,191	1,078	—	—	—	\$5,501
Average interest rate ⁽¹⁾	5.34 %	5.34 %	5.34 %	5.34 %	—	—	
Fixed interest rate - fair value							\$253,642
Instrument's maturities	\$46,522	\$8,178	\$42,515	\$3,362	\$37,259	\$115,806	\$253,642
Interest	11,108	8,912	8,730	1,248	1,191	84,195	\$115,384
Average interest rate	7.29 %	7.18 %	5.86 %	5.27 %	5.22 %	3.80 %	%

⁽¹⁾ Interest rates on variable rate notes payable are equal to the variable rates in effect on December 31, 2018.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not required, are not applicable, or the information required is included in the Consolidated Financial Statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and
Stockholders of American Realty Investors, Inc.

Dallas, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of American Realty Investors, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and schedules collectively referred to as the "consolidated financial statements." In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of American Realty Investors, Inc. as of December 31, 2018 and 2017 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with U.S. generally accepted accounting principles.

Basis of Opinion

These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Liquidity

As described in the Note 16, American Realty Investors, Inc.'s management intends to sell land and income-producing properties and refinance or extend debt secured by real estate to meet the Company's liquidity needs.

Supplemental Information

The supplemental information contained in Schedules III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Security and Exchange Commission's rules. In our opinion, the supplemental information is fairly stated, in all material respects, the financial date required to be set forth therein in relation to the financial statements as a whole.

FARMER, FUQUA & HUFF, PC

Richardson, Texas

March 31, 2019

We have served as the Company's auditor since 2004.

AMERICAN REALTY INVESTORS, INC.**CONSOLIDATED BALANCE SHEETS**

	December 31, 2018	December 31, 2017
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$455,993	\$1,117,429
Real estate subject to sales contracts at cost	3,149	48,234
Less accumulated depreciation	(78,099)	(177,546)
Total real estate	381,043	988,117
Notes and interest receivable (including \$105,803 in 2018 and \$99,410 in 2017 from related parties)	140,327	127,865
Less allowance for estimated losses (including \$14,269 in 2018 and 2017 from related parties)	(14,269)	(15,770)
Total notes and interest receivable	126,058	112,095
Cash and cash equivalents	36,428	33,778
Restricted cash	70,187	54,760
Investment in VAA	68,399	—
Investment in other unconsolidated investees	7,602	6,396
Receivable from related party	70,377	38,311
Other assets	66,055	63,263
Total assets	\$826,149	\$1,296,720
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$286,968	\$898,750
Notes related to real estate held for sale	—	376
Notes related to real estate subject to sales contracts	—	1,957
Bond and interest payable	158,574	113,049
Deferred revenue (including \$37,416 in 2018 and \$56,887 in 2017 to related parties)	33,904	77,332
Accounts payable and other liabilities (including \$107 in 2018 and \$11,893 in 2017 to related parties)	25,576	39,373
Total liabilities	505,022	1,130,837
Shareholders' equity:		
Preferred stock, Series A: \$2.00 par value, authorized 15,000,000 shares, issued and outstanding 614 and 2,000,614 shares in 2018 and 2017 (liquidation preference \$10 per share), including 1,800,000 shares held by ARL and TCI in 2018 and 900,000 shares held by ARL in 2017.	5	2,205
	164	159

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Common stock, \$0.01 par value, 100,000,000 shares authorized; 16,412,861 shares issued and 15,997,076 outstanding as of 2018 and 15,930,145 shares issued and 15,514,360 outstanding as of 2017, including 140,000 shares held by TCI (consolidated) in 2018 and 2017.

Treasury stock at cost; 415,785 shares in 2018 and 2017, and 140,000 shares held by TCI (consolidated) as of 2018 and 2017.	(6,395)	(6,395)
Paid-in capital	84,885	110,138
Retained earnings	179,666	5,967
Total American Realty Investors, Inc. shareholders' equity	258,325	112,074
Non-controlling interest	62,802	53,809
Total shareholders' equity	321,127	165,883
Total liabilities and shareholders' equity	\$826,149	\$1,296,720

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REALTY INVESTORS, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Years Ended December 31,		
	2018	2017	2016
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including \$144, \$839 and \$708 for the year ended 2018, 2017 and 2016, respectively, from related parties)	\$ 120,956	\$ 126,221	\$ 119,663
Expenses:			
Property operating expenses (including \$254, \$959 and \$900 for the year ended 2018, 2017 and 2016, respectively, from related parties)	59,587	64,091	62,950
Depreciation and amortization	22,670	25,679	23,785
General and administrative (including \$1,267, \$3,225 and \$4,053 for the year ended 2018, 2017 and 2016, respectively, from related parties)	12,708	7,691	7,119
Net income fee to related party	631	250	257
Advisory fee to related party	11,475	11,082	10,918
Total operating expenses	107,071	108,793	105,029
Net operating income	13,885	17,428	14,634
Other income (expenses):			
Interest income (including \$5,406, \$16,298 and \$18,864 for the year ended 2018, 2017 and 2016, respectively, from related parties)	21,645	18,941	20,453
Other income	28,993	4,082	2,091
Mortgage and loan interest (including \$2,240, \$6,695 and \$5,300 for the year ended 2018, 2017 and 2016, respectively, from related parties)	(66,063)	(66,171)	(59,362)
Loss on the sale of investments	—	(331)	—
Foreign currency transaction gain (loss)	12,399	(4,536)	—
Equity earnings from VAA	44	—	—
Earnings from unconsolidated subsidiaries and investees	1,469	309	493
Total other (expenses)	(1,513)	(47,706)	(36,325)
Income (loss) before gain on disposition of 50% interest in VAA, gain on land sales, non-controlling interest, and taxes	12,372	(30,278)	(21,691)
Gain on disposition of 50% interest in VAA	154,126	—	—
Gain on sale of income-producing properties	—	16,698	16,207
Gain on land sales	17,404	4,884	3,121
Net income (loss) from continuing operations before taxes	183,902	(8,696)	(2,363)
Income tax expense	(1,210)	(180)	(46)
Net income (loss) from continuing operations	182,692	(8,876)	(2,409)
Discontinued operations:			
Net loss from discontinued operations	—	—	(2)
Gain on sale of real estate from discontinued operations	—	—	—
Income tax expense from discontinued operations	—	—	1
Net income from discontinued operations	—	—	(1)

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Net income (loss)	182,692	(8,876) (2,410)
Net (income) loss attributable to non-controlling interest	(8,993) 445	(322)
Net income (loss) attributable to American Realty Investors, Inc.	173,699	(8,431	) (2,732)
Preferred dividend requirement	(901	) (1,105	) (1,101)
Net income (loss) applicable to common shares	\$172,798	\$ (9,536	) \$(3,833)
Earnings per share - basic				
Net income (loss) from continuing operations	\$10.81	\$ (0.61	) \$(0.25)
Earnings per share - diluted				
Net income (loss) from continuing operations	\$10.81	\$ (0.61	) \$(0.25)
Weighted average common shares used in computing earnings per share	15,982,528	15,514,360	15,514,360	
Weighted average common shares used in computing diluted earnings per share	15,982,528	15,514,360	15,514,360	
Amounts attributable to American Realty Investors, Inc.				
Net income (loss) from continuing operations	\$173,699	\$ (8,431	) \$(2,731)
Net loss from discontinued operations	—	—	(1)
Net income (loss) applicable to American Realty Investors, Inc.	\$173,699	\$ (8,431	) \$(2,732)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REALTY INVESTORS, INC.**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****For the Three Years Ended December 31, 2018****(dollars in thousands)**

	Total Equity	Comprehensive Income (Loss)	Preferred Stock	Common Stock Shares	Treasury Stock Amount	Paid-in Capital	Retained Earnings	Non-controlling Interest	
Balance, December 31, 2015	\$176,889	\$(56,327)	\$2,205	15,930,145	\$156	\$(6,395)	\$109,861	\$17,130	\$53,932
Net loss	(2,410)	(2,410)	—	—	—	—	(2,732)	322	
Assumption of non-controlling interests	(268)	—	—	—	—	—	(268)	—	
Sale of non-controlling interests	3,021	—	—	—	3	—	3,018	—	
Series A preferred stock cash dividend (\$1.00 per share)	(1,101)	—	—	—	—	—	(1,101)	—	
Balance, December 31, 2016	\$176,131	\$(58,737)	\$2,205	15,930,145	\$159	\$(6,395)	\$111,510	\$14,398	\$54,254
Net loss	(8,876)	(8,876)	—	—	—	—	(8,431)	(445)	
Assumption of non-controlling interests	(267)	—	—	—	—	—	(267)	—	
Series A preferred stock cash dividend (\$1.00 per share)	(1,105)	—	—	—	—	—	(1,105)	—	
Balance, December 31, 2017	\$165,883	\$(67,613)	\$2,205	15,930,145	\$159	\$(6,395)	\$110,138	\$5,967	\$53,809
Net income	182,692	173,699	—	—	—	—	173,699	8,993	
Conversion of Series A preferred stock into common stock	(395)	—	(400)	482,716	5	—	—	—	

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Redemption of Series D preferred stock	(10,000)	—	—	—	—	—	(10,000)	—	—
Series D preferred dividend	(7,152)	—	—	—	—	—	(7,152)	—	—
Acquisition of Series A preferred stock by consolidated subsidiary	(9,000)	—	(1,800)	—	—	—	(7,200)	—	—
Series A preferred stock cash dividend (\$1.00 per share)	(901)	—	—	—	—	—	(901)	—	—
Balance, December 31, 2018	\$321,127	\$106,086	\$5	16,412,861	\$164	\$(6,395)	\$84,885	\$179,666	\$62,802

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REALTY INVESTORS, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December		
	2018	2017	2016
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income (loss)	\$182,692	\$(8,876)	\$(2,410)
Adjustments to reconcile net income (loss) applicable to common shares to net cash provided by (used in) operating activities:			
Gain on disposition of 50% interest in VAA	(154,126)	—	—
Gain on sale of land	(17,404)	(4,884)	(3,121)
Gain on sale of income-producing properties	—	(16,698)	(16,207)
Depreciation and amortization	22,670	25,679	23,785
Provision on impairment of notes receivable and real estate assets	—	558	—
Amortization of deferred borrowing costs	4,994	3,591	4,357
Amortization of bond issuance costs	2,994	971	—
Equity earnings from VAA	(44)	—	—
(Earnings) losses from unconsolidated subsidiaries and investees	(1,469)	(309)	493
(Increase) decrease in assets:			
Accrued interest receivable	(33,279)	(581)	(1,151)
Other assets	(86,796)	11,751	(2,343)
Prepaid expense	19,125	(15,192)	(9,222)
Rent receivables	(3,213)	(425)	2,844
Related party receivables	(11,894)	(12,871)	(706)
Increase (decrease) in liabilities:			
Accrued interest payable	(2,316)	4,599	3,475
Other liabilities	(94,266)	(17,439)	10,340
Net cash (used in) provided by operating activities	(172,332)	(30,126)	10,134
Cash Flow From Investing Activities:			
Proceeds from disposition of 50% interest in VAA	236,752	—	—
Proceeds from notes receivables	6,541	30,233	6,532
Origination of notes receivables	(16,801)	(15,741)	(11,703)
Acquisition of land held for development	—	—	(12,508)
Acquisition of income producing properties	(10,558)	(37,044)	(79,736)
Proceeds from sale of income producing properties	4,889	4,623	21,850
Proceeds from sale of land	11,857	6,301	29,128
Investment in unconsolidated real estate entities	—	(267)	2,278
Improvement of land held for development	—	(1,986)	(3,023)
Improvement of income producing properties	(3,688)	—	(5,998)
Sale of controlling interest	—	—	3,021
Construction and development of new properties	(81,367)	(76,147)	(10,941)
Net cash provided by (used in) investing activities	147,625	(90,028)	(61,100)

Cash Flow From Financing Activities:

Proceeds from bonds	59,213	115,337	—
Bond issuance costs	(5,257)	(6,887)	—
Proceeds from notes payable	123,345	135,116	242,215
Recurring payment of principal on notes payable	(107,866)	(86,091)	(22,851)
Acquisition of Series A preferred stock by consolidated subsidiary	(9,000)	—	—
Payments on maturing notes payable	(16,750)	—	(173,160)
Deferred financing costs	—	(3,599)	841
Preferred stock dividends - Series A	(901)	(1,105)	(1,101)
Net cash provided by financing activities	42,784	152,771	45,944
Net increase in cash and cash equivalents	18,077	32,617	(5,022)
Cash and cash equivalents, beginning of period	88,538	55,921	60,943
Cash and cash equivalents, end of period	\$ 106,615	\$ 88,538	\$ 55,921
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 57,981	\$ 39,732	\$ 50,945
Schedule of noncash investing and financing activities:			
Notes receivable received from sale of income-producing properties	\$ 1,735	\$ —	\$ —
Seller financing note - acquisition of income-producing properties	\$ 1,895	\$ —	\$ —
Notes payable issued on acquisition of income-producing properties	\$ 31,175	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Years Ended December 31,

	2018	2017	2016
	(dollars in thousands)		
Net income (loss)	\$182,692	\$(8,876)	\$(2,410)
Total comprehensive income (loss)	182,692	(8,876)	(2,410)
Comprehensive (income) loss attributable to non-controlling interest	(8,993)	445	(322)
Comprehensive income (loss) attributable to American Realty Investors, Inc.	\$173,699	\$(8,431)	\$(2,732)

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of American Realty Investors, Inc. "ARL" and consolidated entities have been prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1. "Organization and Summary of Significant Accounting Policies." The Notes to Consolidated Financial Statements are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain prior year amounts have been reclassified to conform to the current year presentation on the consolidated statements of operations, consolidated balance sheets and the consolidated statements of cash flows.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business.

The Company, a Nevada corporation that was formed in 1999, is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange ("NYSE American") under the symbol "ARL". Over 80% of ARL's stock is owned by related party entities. ARL and a subsidiary own approximately 77.68% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc. "TCI", a Nevada corporation, whose common stock is traded on the NYSE American under the symbol "TCI".

TCI, a subsidiary of ARL, owns approximately 81.25% of the common stock of Income Opportunity Realty Investors, Inc. "IOR". Effective July 17, 2009, IOR's financial results were consolidated with those of ARL and TCI and their subsidiaries. IOR's common stock is traded on the New York Stock Exchange ("NYSE American") under the symbol "IOR".

ARL's Board of Directors are responsible for directing the overall affairs of ARL and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc. ("Pillar"), a Nevada corporation, under a written Advisory Agreement that is reviewed annually by ARL's Board of Directors. The directors of ARL are also directors of TCI and IOR. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI and IOR. The officers of ARL also serve as officers of TCI, IOR and Pillar.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. “RAI”, a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. (“MRHI”, formerly known as Realty Advisors Management, Inc. “RAMI”, effective August 7, 2014), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company’s external Advisor and Cash Manager. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company’s benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. “Directors, Executive Officers and Corporate Governance – The Advisor”. ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC (“Regis”), the sole member of which is Realty Advisors, LLC, manages our commercial and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. “Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage”. ARL engages third-party companies to lease and manage its apartment properties.

On January 1, 2012, the Company's subsidiary, TCI, entered into a development agreement with Unified Housing Foundation, Inc. "UHF" a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

Southern Properties Capital Ltd. a British Virgin Island corporation ("Southern" or "SPC"), is a wholly owned subsidiary of TCI that was incorporated on August 16, 2016 for the purpose of raising funds by issuing debentures that cannot be converted into shares on the Tel-Aviv Stock Exchange ("TASE"). Southern operates in the United States and is primarily involved in investing in, developing, constructing and operating income-producing properties of multi-family residential real estate assets. Southern is included in the consolidated financial statements of TCI.

On November 19, 2018, we executed an agreement between the Macquarie Group ("Macquarie") and Southern and TCI to create a joint venture, Victory Abode Apartments, LLC ("VAA") to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, Southern and TCI contributed a portfolio of 49 income producing apartment complexes, and 3 development projects in various stages of construction and received cash consideration of \$236.8 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development ("HUD").

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of SPC and Summerset Intermediate Holdings 2 LLC ("Summerset"), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively ("Class A Members"). The remaining 2% of the profits interest is held by Daniel J. Moos, who serves as the President and Chief Executive officer of the Company ("Class B Member") and Manager of the joint venture.

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents, and leasing office and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2018, we owned through our wholly owned subsidiaries nine residential apartment communities comprising of 1,489 units, seven commercial properties comprising an aggregate of approximately 1.7 million rentable square feet, and an investment in 2,346 acres of undeveloped and partially developed land. In addition, our joint venture VAA owns forty-nine residential apartment communities comprised of 9,192 units.

Basis of presentation. The Company presents its financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”). The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 “Consolidation”, whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (“EITF”) Issue 04-5, Investor’s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where it is not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investment in Grappa Florentina, LLC is accounted for under the equity method.

The Company in accordance with the VIE guidance in ASC 810 "Consolidations" consolidates nine and fifty-one multifamily residential properties located throughout the United States at December 31, 2018 and 2017, respectively, with total units of 1,489 and 8,427, respectively. Assets totaling approximately \$459 million and approximately \$1.2 billion at December 31, 2018 and 2017, respectively, were consolidated and included in "Real estate, at cost" on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real estate, depreciation, and impairment. Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements—10-40 years; furniture, fixtures and equipment—5-10 years). We continually evaluate the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, "Property, Plant and Equipment." Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Any properties that are treated as "subject to sales contract" on the Consolidated Balance Sheets and are listed in detail in Schedule III, "Real Estate and Accumulated Depreciation" are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in each sale transaction under Item 1 Significant Real Estate Acquisitions/Dispositions and Financing. Any sale transaction where the guidance reflects that

a sale had not occurred, the asset involved in the transaction, including the debt and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets”.

Real estate held for sale. We classify properties as held for sale when certain criteria are met in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. We did not have any real estate assets classified as held for sale at December 31, 2018 or 2017.

Effective as of January 1, 2015, we adopted the revised guidance in Accounting Standards Update No. 2014-08 regarding discontinued operations. For sales of real estate or assets classified as held for sale after January 1, 2015, we will evaluate whether a disposal transaction meets the criteria of a strategic shift and will have a major effect on our operations and financial results to determine if the results of operations and gains on sale of real estate will be presented as part of our continuing operations or as discontinued operations in our consolidated statements of operations. If the disposal represents a strategic shift, it will be classified as discontinued operations for all periods presented; if not, it will be presented in continuing operations.

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in Item 1 “Significant Real Estate Acquisitions/Dispositions and Financing.” Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt, if appropriate, and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets.”

Cost capitalization. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to planning, developing, initial leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

Fair value measurement. We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures,” to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity’s own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1 Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Related parties. We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Recognition of revenue. Our revenues, which are composed largely of rental income, include rents reported on a straight-line basis over the lease term. In accordance with ASC 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-” and “below-market” leases at their fair values over the terms of the respective leases.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a “gross” basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. For hotel properties, revenues for room sales and guest services are recognized as rooms occupied and services rendered. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Sales and the associated gains or losses of real estate assets are recognized in accordance with the provisions of ASC Topic 360-20, “Property, Plant and Equipment – Real Estate Sale”. The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, the Company defers some or all of the gain recognition and accounts for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Foreign currency translation. Foreign currency denominated assets and liabilities of subsidiaries with local functional currencies are translated to United States dollars at year-end exchange rates. The effects of translation are recorded in the cumulative translation component of shareholders’ equity. Subsidiaries with a United States dollar functional currency re-measure monetary assets and liabilities at year-end exchange rates and non-monetary assets and liabilities at historical exchange rates. The effects of re-measurement are included in income. Exchange gains and losses arising from transactions denominated in foreign currencies are translated at average exchange rates.

Non-performing notes receivable. ARL considers a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest recognition on notes receivable. We record interest income as earned in accordance with the terms of the related loan agreements.

Allowance for estimated losses. We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 5 "Notes and Interest Receivable" for details on our notes receivable.

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Restricted cash. Restricted cash is comprised primarily of cash balances held in escrow by financial institutions under the terms of certain secured notes payable and certain unsecured bonds payable.

Concentration of credit risk. The Company maintains its cash balances at commercial banks and through investment companies, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2018 and 2017, the Company maintained balances in excess of the insured amount.

Earnings per share. Income (loss) per share is presented in accordance with ASC 620 “Earnings per Share”. Income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with GAAP, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Income taxes. The Company is a “C” corporation for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, the Company filed an annual consolidated income tax return with TCI and IOR and their subsidiaries. ARL was the common parent for the consolidated group. After that date, the Company and the rest of the ARL group joined the MRHI consolidated group for tax purposes. The income tax expense (benefit) for the 2012 tax period in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOR. That agreement continued until August 31, 2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOR and MRHI for the remainder of 2012 and subsequent years. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent accounting pronouncements.

In May 2014, Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers,” was issued. This new guidance established a new single comprehensive revenue recognition model and provides for enhanced disclosures. Under the new policy, the nature, timing and amount of revenue recognized for certain transactions could differ from those recognized under existing accounting guidance. This new standard does not affect revenue recognized under lease contracts. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. The Company does not believe the adoption of this guidance had a material impact on its financial statements.

In February 2016, FASB issued ASU 2016-02 (“ASU 2016-02”), Leases. This guidance establishes a new model for accounting for leases and provides for enhanced disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its financial position and results of operations, if any.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those years; however, early adoption is permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively if retrospective application would be impracticable. The Company adopted this standard effective on January 1, 2018. ASU 2016-15 will impact our presentation of operating, investing and financing activities related to certain cash receipts and payments on our consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies guidance on the classification and presentation of changes in restricted cash. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively to all periods presented. Upon adoption, restricted cash balances will be included along with cash and cash equivalents as of the end of the period and beginning period, respectively, in the Company’s consolidated statement of cash flows for all periods presented. Upon adoption, separate line items showing changes in restricted cash balances will be eliminated from the Company’s consolidated statement of cash flows. The Company adopted this guidance effective on January 1, 2018. ASU 2016-18 will impact our presentation of operating, investing and financing activities related to restricted cash on our consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business and thus will be treated as asset acquisitions. Acquisition costs for those acquisitions that are not businesses will be capitalized rather than expensed. The Company adopted this guidance effective January 1, 2018. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20), which requires that all entities account for the derecognition of a business in accordance with ASC 810, including instances in which the business is considered in-substance real estate. The ASU requires the Company to measure at fair value any retained interest in a partial sale of real estate. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2017. The Company adopted ASU 2017-05 effective January 1, 2018. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* that eliminates, adds and modifies certain disclosure requirements for fair value measurements. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2018-13 may have on its consolidated financial statements.

NOTE 2. INVESTMENT IN VAA

On November 19, 2018, TCI executed an agreement with Macquarie Group (“Macquarie”) to create a joint venture, Victory Abode Apartments, LLC (“VAA”) to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, TCI contributed a portfolio of 49 income producing apartment complexes, and 3 development projects in various stages of construction. TCI received cash consideration of \$236.8 million and recognized a gain of approximately \$154.1 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development (“HUD”).

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of Southern and Summerset Intermediate Holdings 2 LLC (“Summerset”), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively (“Class A Members”). The remaining 2% of the profit participation interest is held by Daniel J. Moos ARL’s President and Chief Executive Officer (“Class B Member”) who serves also as the Manager of the joint venture. In addition, upon the closing of the agreement the Class B Member received a one-time consideration payment of \$1.9 million.

The Company accounts for its investment in VAA under the equity method of accounting. Under the equity method of accounting, our net equity in the investment is reflected within the Consolidated Balance Sheets in the caption ‘Investment in VAA’, and our share of the net income or loss from the joint venture is included within the Consolidated Statements of Operations in the caption ‘Earnings from VAA’. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture’s distribution priorities, which may change upon the achievement of certain investment return thresholds and other agreed upon adjustments.

The following is a summary of the financial position and results of operations of VAA (dollars in thousands):

VAA	December 31, 2018
Balance Sheet	
Net real estate assets	\$1,257,557
Other assets	67,020
Debt, net	(791,225)
Other liabilities	(280,288)
Total equity	(253,064)

	For the period November 19 to December 31, 2018
Results of Operations	
Total revenue	\$ 12,887
Total property, operating, and maintenance expenses	(4,507)
Total other expense	(18,102)
Net loss	\$(9,722)

Below is a reconciliation of our allocation of income or loss from VAA (dollars in thousands):

	For the period November 19 to December 31, 2018
VAA net loss	\$(9,722)
Adjustments to reconcile to income (loss) from VAA	
Interest expense on mezzanine loan	2,815
In-place lease intangible amortization expense	3,983
Depreciation basis differences	3,012
Adjusted net income	\$ 88
Percentage ownership in VAA	50 %
Earnings from VAA	\$ 44

The following table shows the location of the income-producing properties held for investment by VAA as of December 31, 2018:

Location	Apartments	
	No.	Units
Alabama	1	168
Arkansas	6	1,320
Colorado	2	260
Florida	2	388
Georgia	1	222
Louisiana	3	464
Mississippi	1	196
Nevada	1	308
North Carolina	1	201
Tennessee	4	708
Texas-Greater Dallas-Ft Worth	13	2,323
Texas-Greater Houston	1	176

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Texas-Other	13	2,458
Total	49	9,192

At December 31, 2018, VAA apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date ⁽¹⁾	Total Projected Costs ⁽¹⁾
Terra Lago apartments	Rowlett, TX	451	\$66,395	\$—
Lakeside lofts apartments	Farmers Branch, TX	494	50,357	80,622
Sawgrass Creek apartments Phase II	Tampa, FL	143	25,113	26,799
Total		1,088	\$141,865	\$107,421

(1) Costs include construction hard costs, construction soft costs and loan borrowing costs.

NOTE 3. REAL ESTATE

A summary of our real estate owned as of the end of the year is listed below (dollars in thousands):

	2018	2017
Apartments	\$126,274	\$733,620
Apartments under construction	21,916	105,452
Commercial properties	224,162	200,797
Land held for development	83,641	77,560
Real estate subject to sales contract	3,149	48,234
Total real estate, at cost, less impairment	459,142	1,165,663
Less accumulated depreciation	(78,099)	(177,546)
Total real estate, net of depreciation	\$381,043	\$988,117

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures and equipment	3 to 7 years

Fair Value Measurement

The Company applies the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures," to the valuation of real estate assets. The Company is required to assess the fair value of its consolidated real estate assets with indicators of impairment. The value of impaired real estate assets is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flow of each asset, as well as the income capitalization approach, which considers prevailing market capitalization rates, analyses of recent comparable sales transactions, information from actual sales negotiations and bona fide purchase offers received from third parties. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of

future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements used in these evaluations are considered to be Level 2 and 3 valuations within the fair value hierarchy in the accounting rules, as there are significant observable (Level 2) and unobservable inputs (Level 3). Examples of Level 2 inputs the Company utilizes in its fair value calculations are appraisals and bona fide purchase offers from third parties. Examples of Level 3 inputs the Company utilizes in its fair value calculations are discount rates, market capitalization rates, expected lease rental rates, timing of new leases, an estimate of future sales prices and comparable sales prices of similar assets, if available. There was no provision for impairment during the years ended December 31, 2018, 2017 and 2016.

The highlights of our significant real estate transactions for the year ended December 31, 2018, are discussed below.

Purchases

During the year ended December 31, 2018, the Company purchased through one of its subsidiaries, eight residential apartment communities. A multi-family 80 unit community located in Baton Rouge, LA for a total purchase price of \$12 million, paid through a seller's financing note of \$1.9 million, issuance of note payable of \$8.6 million, and exercising an option to purchase of \$1.5 million paid in the previous year. A multi-family 99 unit residential apartment community located in Mansfield, TX for a total purchase price of \$14.8 million, paid through a seller's financing note of \$2.3 million, and an issuance of a note payable of \$11.0 million. A multi-family 200 unit residential apartment community located in Gulf Shores, AL for a total purchase price of \$18.1 million, paid through an issuance of a note payable of \$11.5 million. A multi-family 144 unit residential apartment community located in Beaumont, TX for a total purchase price of \$12.3 million. A multi-family 240 unit residential apartment community located in Houma, LA for a total purchase price of \$20.1 million. A multi-family 208 unit residential apartment community located in Texarkana, TX for a total purchase price of \$14.7 million. A multi-family 160 unit residential apartment community located in Tupelo, MS for a total purchase price of \$11.1 million.

Sales

For the year ended December 31, 2018, TCI sold 62 acres of land to an independent third party for a total sales price of \$3.0 million and recorded a gain of \$1.3 million from the land sale. In the second quarter, a golf course comprising approximately 96.09 acres sold for an aggregate sales price of \$2.3 million, out of which, \$0.6 million was received in cash and \$1.7 million in note receivables. During the first quarter, the Company sold six income-producing properties to a related party for an aggregate purchase price of \$8.5 million, out of which, \$2.1 million was received in cash and \$6.4 million in note receivables. During the fourth quarter, the Company sold one income-producing properties to a related party for a purchase price of \$2.2 million. No gain or loss was recorded from the sale of income-producing properties.

In addition, on November 19, 2018 TCI through one of its subsidiaries formed VAA a joint venture with Macquarie. In connection with the formation of the joint venture, TCI contributed fifty-two properties and received a cash consideration of \$236.8 million from Macquarie for a voting and profit participation right of 50% and 49%, respectively ("Class A Members"). The remaining 2% of the profit participation interest is held by Daniel J. Moos ARL's President and Chief Executive Officer ("Class B Member") who also serves as the Manager of the joint venture. The Company recognized a gain of approximately \$154.1 million from the sale of the contributed properties to the joint venture.

Mercer Crossing

In addition to the real estate sales noted above the Company recorded sales from a development project known as Mercer Crossing.

At November 2015, our real estate land holdings at Mercer Crossing consisted of land developable into residential homes and commercial projects, located in Farmers Branch, Texas. In November 2015, the Company entered into a sales contract with an unrelated party. The contract was for all of the developable land owned by the Company. In addition, TCI and ARL also sold land in this transaction. Total consideration for the sale was \$75 million. The agreement among the parties to this transaction provides for TCI to hold the subordinated note from the buyer in the amount of \$50 million. At the closing, due to the inadequate down payment from the buyer and the level of seller financing involved, the transaction was accounted for under the deposit method. Under the deposit method, no revenue is recognized and the asset sold remains on the books until the criteria for full revenue recognition are met.

During the third quarter of 2018, due to significant cumulative sales of real estate to unrelated third parties and cash received by TCI, the criteria for recording full accrual accounting had been met. Through the period ended August 21, 2018 approximately \$28.1 million of the assets previously held by the Company were sold, resulting in a gain of \$7.5 million.

On August 22, 2018 the Company reacquired all the unsold portions of the real estate from the November 2015 transaction for the amount that remained from the original sales price.

During the period August 23, 2018 through December 31, 2018 additional Mercer Crossing real estate was sold for \$11.7 million resulting in a net gain on sale of real estate of \$5.6 million.

As of December 31, 2018, the Company has approximately 86 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as “subject to sales contract” on the Consolidated Balance Sheets. Due to the related party nature of the transactions, TCI has deferred the recording of the sales in accordance with ASC 360-20.

NOTE 4. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31, 2018 and 2017, the Company paid interest expense of approximately \$57.9 million and \$39.7 million, respectively.

Cash and cash equivalents, and restricted cash for fiscal year ended 2018 and 2017 was \$106.6 million and \$88.5 million, respectively. The following is a reconciliation of the Company’s cash and cash equivalents, and restricted cash to the total presented in the consolidated statement of cash flows:

	December 31,	
	2018	2017
Cash and cash equivalents	\$36,428	\$33,778
Restricted cash (cash held in escrow)	37,928	44,687
Restricted cash (certificate of deposits)	9,687	5,651
Restricted cash (held with Trustee)	22,572	4,422
	\$106,615	\$88,538

Amounts included in restricted cash represent funds required to meet contractual obligations with certain financial institutions for the payment of reserve replacement deposits and tax and insurance escrow. In addition, restricted cash includes funds to the Bond’s Trustee for payment of principal and interests.

NOTE 5. NOTES AND INTEREST RECEIVABLE

A portion of our assets are invested in mortgage notes receivable, principally secured by real estate. We may originate mortgage loans in conjunction with providing purchase money financing of property sales. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower and, unless noted otherwise, are so secured. Management intends to service and hold for investment the mortgage notes in our portfolio. A majority of the notes receivable provide for principal to be paid at maturity (dollars in thousands).

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
H198, LLC (Las Vegas Land)	01/20	12.00 %	5,907	Secured
H198, LLC (Legacy at Pleasant Grove Land)	10/19	12.00 %	496	Secured
Oulan-Chikh Family Trust	03/21	8.00 %	174	Secured
H198, LLC (McKinney Ranch Land)	09/20	6.00 %	4,554	Secured
Forest Pines	09/19	5.00 %	2,223	Secured
Spyglass Apartments of Ennis, LP	11/19	5.00 %	5,083	Secured
Bellwether Ridge	05/20	5.00 %	3,429	Secured
Parc at Windmill Farms	05/20	5.00 %	6,066	Secured
Unified Housing Foundation, Inc. (Echo Station) ⁽¹⁾	12/32	12.00 %	1,481	Secured
Unified Housing Foundation, Inc. (Inwood on the Park) ⁽¹⁾	12/32	12.00 %	3,639	Secured
Unified Housing Foundation, Inc. (Kensington Park) ⁽¹⁾	12/32	12.00 %	3,933	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00 %	2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00 %	6,369	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00 %	2,732	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00 %	1,953	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00 %	2,000	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00 %	4,000	Secured
Unified Housing Foundation, Inc. (Reserve at White Rock Phase I) ⁽¹⁾	12/32	12.00 %	2,485	Secured
Unified Housing Foundation, Inc. (Reserve at White Rock Phase II) ⁽¹⁾	12/32	12.00 %	2,555	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell) ⁽¹⁾	12/32	12.00 %	1,323	Secured
Unified Housing Foundation, Inc. (Tivoli) ⁽¹⁾	12/32	12.00 %	6,140	Secured
Unified Housing Foundation, Inc. (Trails at White Rock) ⁽¹⁾	12/32	12.00 %	3,815	Secured
Unified Housing Foundation, Inc. ⁽¹⁾	12/19	12.00 %	10,401	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	06/20	12.00 %	11,074	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/32	12.00 %	1,349	Unsecured
Realty Advisors Management, Inc. ⁽¹⁾	12/24	2.28 %	20,390	Unsecured
One Realco Corporation (1,2)	01/20	3.00 %	7,000	Unsecured
Other related party notes	Various	Various	2,890	Various secured interests
Other non-related party notes	Various	Various	1,031	

Other non-related party notes	Various	Various	2,670	Various secured interests Various unsecured interests
Accrued interest			11,165	
Total Performing			\$140,327	
Allowance for estimated losses			(14,269)	
Total			\$126,058	

(1) Related party notes

(2) An allowance was taken for estimated losses at full value of note.

As of December 31, 2018, the obligors on approximately \$97.5 million or 75.5% of the mortgage notes receivable portfolio were due from related parties. The Company recognized \$10.3 million of interest income from these related party notes receivables.

As of December 31, 2018 none of the mortgage notes receivable portfolio were non-performing.

The Company has various notes receivable from Unified Housing Foundation, Inc. "UHF". UHF is determined to be a related party due to our significant investment in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired.

NOTE 6. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting.

The summary data presented below includes our investments accounted for under the equity method, except for our investment in VAA which is discussed in detail in Note 2 'Investment in VAA'.

	Percentage ownership as of December 31,		
	2018	2017	2016
Gruppa Florentina, LLC ⁽¹⁾	20.00%	20.00%	20.00%

(1) Other investees.

The market values, other than unconsolidated subsidiaries, as of the years ended December 31, 2018, 2017 and 2016 were not determinable as there were no readily traded markets for these entities. The following is a summary of the financial position and results of operations from our investees (dollars in thousands):

	For the Twelve Months Ended December 31,		
	2018	2017	2016
Other Investees			
Real estate, net of accumulated depreciation	\$13,810	\$12,587	\$13,641
Notes receivable	11,238	2,724	9,561
Other assets	32,566	32,176	31,135
Notes payable	(11,287)	(17,845)	(9,834)
Other liabilities	(7,320)	(5,991)	(8,284)
Shareholders' equity/partners capital	(39,007)	(23,651)	(36,219)
Revenue	\$53,834	\$38,747	\$54,264
Depreciation	(1,456)	(1,279)	(1,150)
Operating expenses	(49,647)	(35,410)	(49,856)
Interest expense	(673)	(1,065)	(793)
Income (loss) from continuing operations	\$2,058	\$993	\$2,465
Income (loss) from discontinued operations	—	—	—
Net income (loss)	\$2,058	\$993	\$2,465

Company's proportionate share of earnings⁽¹⁾ \$412 \$199 \$493

(1)Earnings represent continued and discontinued operations

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NOTE 7. NOTES AND INTEREST PAYABLE

Below is a summary of our notes and interest payable as of December 31, 2018 (dollars in thousands):

	Notes Payable	Accrued Interest	Total Debt
Apartments	\$94,759	\$ 270	\$95,029
Apartments under Construction	14,402	—	14,402
Commercial	136,327	450	136,777
Land	27,520	124	27,644
Other	22,527	17	22,544
Total	\$295,535	\$ 861	\$296,396
Unamortized deferred borrowing costs	(9,428)	—	(9,428)
	\$286,107	\$ 861	\$286,968

The following table summarizes our contractual obligations for principal payments as of December 31, 2018 (dollars in thousands):

Year	Amount
2019	\$47,427
2020	8,822
2021	43,202
2022	43,304
2023	37,259
Thereafter	115,521
Total	\$295,535

Interest payable at December 31, 2018, was approximately \$0.9 million. Interest accrues at rates ranging from 2.5% to 9.75% per annum, and mature between 2019 and 2055. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of approximately \$459 million.

During the year ended, the Company refinanced or modified one loan with a total principal balance of \$40 million. The refinancing resulted in lower interest rates and the extension of the term of the loan. The modifications resulted in lower interest rates. The transactions provide for lower monthly payments over the term of the loans.

There are various land mortgages, secured by the property, that are in the process of a modification or extension to the original note due to expiration of the loan. We are in constant contact with these lenders, working together in order to modify the terms of these loans and we anticipate a timely resolution that is similar to the existing agreement or subsequent modification.

In conjunction with the development of various apartment projects and other developments, we drew down \$81.4 million in construction loans during the year ended December 31, 2018.

NOTE 8. BONDS AND BONDS INTEREST PAYABLE

In August 2016 Southern Properties Capital LTD (“Southern”), a British Virgin Islands corporation was incorporated for the purpose of raising funds by issuing Bonds to be traded on the Tel Aviv Stock Exchange (“TASE”). TCI transferred certain residential and commercial properties located in the United States to Southern, its wholly owned subsidiary.

On February 13, 2017, Southern filed a final prospectus with the TASE for an offering and sale of nonconvertible Series A Bonds to be issued by Southern. The bonds are obligations of Southern. During the year ended December 31, 2017 on three separate occasions Southern issued nonconvertible Series A Bonds with a total value of approximately NIS400 million New Israeli Shekels (“NIS”) or approximately \$115 million dollars. The Series A Bonds have a stated interest rate of 7.3%. At March 31, 2018 the effective interest rate is 9.17%. The bonds require semi-annual equal installments on January 31 and July 31 of each year from 2019 to 2023 (inclusive). The interest will be repaid on January 31 and July 31 of each of the years 2018 to 2023 (inclusive), with the first payment commencing on July 31, 2017.

On January 25, 2018, interest payment of approximately NIS 14.6 million (or approximately \$4.3 million) was paid to the Series A bond holders.

On February 15, 2018, Southern issued Series B bonds in the amount of NIS 137.7 million par value (approximately \$39.2 million as of February 15, 2018). The Series B bonds are registered on the TASE. The bonds are reported in NIS and bear annual interest rate of 6.8%. Interest shall be repaid January 31 and July 31 of each of the years 2019 to 2025 (inclusive), first payment commencing on July 31, 2018. The principal shall be repaid in ten equal installments on January 31 and July 31 of each of the years from 2021 to 2025 (inclusive). With this issuance the Company incurred approximately \$1.4 million of bond issuance cost. The effective interest rate is 7.99%.

On July 19, 2018, Southern closed a private placement of its Series B bonds in the amount of NIS 72.3 million (or approximately \$19.8 million). The bonds are reported in NIS, are registered on the TASE, bear an annual interest rate of 6.8% and have an effective interest rate of 9.60%. Interest will be paid on January 31 and July 31 of each of the years 2019 and 2025 (inclusive). The principal will be repaid in ten equal installment on January 31 and July 31 of each of the years from 2021 to 2025 (inclusive). The Company incurred bonds issuance costs of approximately \$1.9 million.

On July 26, 2018, interest payment of approximately NIS 18.9 million (or approximately \$5.2 million) was paid to Series A and B bond holders.

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In December 2018, the Company deposited \$16.2 million with the bond Trustee for the upcoming January 2019 Series A and B bonds principal and interest payment.

The outstanding balance of these Bonds at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Bonds (Series A)	\$106,686	\$115,336
Bonds (Series B)	36,740	—
Bonds (Series B expansion)	19,290	—
Less: deferred issuance expense, net	(8,179)	(5,914)
Accrued Interest	4,037	3,627
	\$158,574	\$113,049

The aggregate maturity of the bonds are as follows:

Year	December 31, 2018	December 31, 2017
2019	\$22,049	\$—
2020	22,049	23,067
2021	33,629	23,067
2022	33,629	23,067
2023	30,070	23,067
Thereafter	21,290	20,781
	\$162,716	\$113,049

The funds were used primarily for the acquisition and development of additional real estate operations in the United States. The funds were raised and will be repaid in NIS, however the funds raised have been converted to US dollars. The Company records unrealized gains or losses each quarter based upon the relative exchange values of the US dollar and the NIS; however, no gain or loss will be realized until a conversion from US dollars to NIS actually occurs in the future. The recorded unrealized gain or loss is reflected as a separate line item to highlight the fact that it is a non-cash transaction until such time as actual payment of principal and interest on the bonds is made. For the years ended December 31, 2018, and 2017, the Company recorded a gain on foreign currency transaction of approximately \$12.4 million, and a loss of \$4.5 million, respectively.

**NOTE 9. *RELATED PARTY TRANSACTIONS
AND FEES***

We apply ASC Topic 805, “Business Combinations,” to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm’s length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in our best interest.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, the sole shareholder of which is MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor." ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage." ARL engages third-party companies to lease and manage its apartment properties.

Below is a description of the related party transactions and fees between Pillar and Regis for each of the three years ended December 31, 2018:

Fees, expenses, and revenue paid to and/or received from our advisor:

	2018	2017	2016
	(dollars in thousands)		
Fees:			
Advisory	\$11,475	\$11,082	\$10,918
Mortgage brokerage and equity refinancing	852	1,712	775
Net income	631	250	257
	\$12,958	\$13,044	\$11,950
Other Expense:			
Cost reimbursements	\$4,720	\$3,240	\$3,826
Interest paid (received)	(3,370)	(1,195)	(1,444)
	\$1,350	\$2,045	\$2,382
Revenue:			
Rental	\$1,178	\$783	\$708

Fees paid to Regis and related parties:

	2018	2017	2016
	(dollars in thousands)		
Fees:			
Property acquisition	\$ 32,008	\$ 9,128	\$ 10,775
Property management, construction management and leasing commissions	540	963	888
Real estate brokerage	2,068	1,369	787
	\$ 34,616	\$ 11,460	\$ 12,450

The Company received rental revenue of \$1.2 million, \$0.8 million, and \$0.7 million in the years ended December 31, 2018, 2017, and 2016, respectively, from Pillar and its related parties for properties owned by the Company.

As of December 31, 2018, the Company had notes and interest receivables, net of allowances, of \$67.2 million and \$4.1 million, respectively, due from UHF, a related party. See Part 2, Item 8. Note 5. "Notes and Interest Receivable." During 2018, the Company recognized interest income of \$8.4 million, originated \$5.3 million, received no principal payments, and received interest payments of \$8.6 million from these related party notes receivables.

On January 1, 2012, the Company's subsidiary, TCI, entered into a development agreement with UHF, a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

The Company is the primary guarantor, on a \$39.1 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2018, UHF was in compliance with the covenants to the loan agreement.

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOR and their subsidiaries that was entered into in July of 2009. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to related parties (Pillar) as of December 31, 2018 and 2017:

	2018	2017
	(dollars in thousands)	
Related party receivable, beginning balance	\$ 38,311	\$24,672
Cash transfers	75,892	56,635
Advisory fees	(11,475)	(11,082)
Net income fee	(631)	(250)
Cost reimbursements	(4,720)	(3,240)
Interest income	3,370	1,196
Notes receivable purchased	(5,314)	(447)
Fees and commissions	(2,919)	(3,082)
Expenses received (paid) by Advisor	(62)	(579)
Financing (mortgage payments)	9,933	(17,313)
Sales/purchases transactions	(32,008)	(9,818)
Tax sharing	—	1,619
Related party receivable, ending balance	\$ 70,377	\$38,311

As of December 31, 2018, subsidiaries hold approximately 86 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as “subject to sales contract” on the Consolidated Balance Sheets.

NOTE 10. DIVIDENDS

ARL’s Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on ARL’s common stock were declared for fiscal years ended 2018, 2017, or 2016. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company’s financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board. On January 12, 2018 Realty Advisors converted 200,000 preferred Series A shares plus accrued dividends into 482,716 shares of common stock.

NOTE 11. PREFERRED STOCK

Under ARL's Amended Articles of Incorporation, 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock are authorized to be issued with a par value of \$2.00 per share with a liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are payable at the annual rate of \$1.00 per share, or \$.25 per share quarterly, to stockholders of record on the last day of each March, June, September, and December, when and as declared by the Board of Directors. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days.

On December 31, 2018, a stock transfer agreement was entered into between Realty Advisors, Inc. ("RAI") and TCI whereby TCI purchased from RAI 900,000 shares of Series A Preferred Stock for a total purchase price of approximately \$9 million. Also, as part of the agreement, TCI acquired accrued unpaid dividends on the 900,000 shares of Series A Preferred Stock of approximately \$9.9 million. At December 31, 2018, 1.8 million shares of Series A Convertible Preferred Stock have been eliminated in consolidation. Unpaid accrued dividends in the amount of \$9.9 million have also been eliminated in consolidation. After these eliminations, there are 614 shares outstanding of Series A Preferred Stock at December 31, 2018.

NOTE 12. INCOME TAXES

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

For financial reporting purposes, income before income taxes were:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Income (loss) from continuing operations before income taxes	\$183,902	\$(8,696)	\$(2,363)

The expense (benefit) for income taxes consists of:

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
Current:			
Federal	\$42,231	\$(3,044)	\$ —
State	1,210	10	—
Deferred and Other:			
Federal	(42,231)	3,044	46

State	—	170	—
Total Tax Expense	\$1,210	\$180	\$46

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory rate is as follows:

	Years Ended December 31,		
	2018	2016	2015
	(In thousands)		
Income Tax Expense (Benefit) at Federal Statutory Rate	\$38,619	\$(3,044)	\$(827)
State and Local Income Taxes Net of Federal Tax Benefit	1,210	180	—
Permanent tax differences	(224)	—	—
Temporary tax differences			
Installment note on land sale	(2,875)	(1,918)	
Allowance for losses on note receivables	(712)	(2,372)	
Deferred gains	(7,041)	(10,758)	
Basis differences on fixed assets	22,110	9,284	
Other basis/timing differences	(7,646)	5,764	
Use/generation on net operating loss carryforwards	(42,231)	3,044	873
Reported Income Tax Expense	\$1,210	\$180	\$46
Effective Tax Rate	0.7 %	N/A	N/A

The company is subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2018, the Company's tax years for 2017, 2016, and 2015 are subject to examination by the tax authorities. With few exceptions, as of December 31, 2018, the Company is no longer subject to U.S federal, state, local, or foreign examinations by tax authorities for the years before 2014.

The 2017 effective tax rate is driven primarily by the passing of the Tax Cuts and Jobs Act by congress. This act has reduced the statutory tax rate for corporations from 35% to 21% starting in 2018. As a result, the tax assets of ARI had to be re-priced to reflect the new rate for future years with the impact on the 2017 provision for income taxes.

Components of the Net Deferred Tax Asset or Liability

	Years Ended	
	December 31,	
	2018	2017
	(In thousands)	
Deferred Tax Assets:		
Allowance for losses on notes	\$2,879	\$3,591
Installment note on land sale	—	2,875
Deferred Gain	3,999	11,040
Net Operating Loss Carryforward	8,700	50,931
Total Deferred Tax Assets	15,578	68,437
Less: Valuation Allowance	(12,246)	(42,995)
Total Net Deferred Tax Assets	3,332	25,442
Deferred Tax Liabilities:		
Deferred gain	—	—
Basis Differences for Fixed Assets	(3,332)	(25,442)
Total Deferred Tax Liability	(3,332)	(25,442)
Current Net Deferred Tax Asset	3,332	25,442
Long-Term Net Deferred Tax Liability	(3,332)	(25,442)
Net deferred tax asset (liability)	\$—	\$—

Operating Loss and Tax Credit Carryforwards

We have federal income tax net operating losses (NOLs) carryforwards related to our domestic operations of approximately \$26 million on a standalone basis, which have an indefinite life. We also have state NOLs in many of the various states in which we operate.

Valuation Allowance Reversal

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. At December 31, 2018, 2017 and 2016 ARL had a net deferred tax asset due to tax deductions available to it in future years. However, as management could not determine that it was more likely than not that ARL would realize the benefit of the deferred tax asset, a valuation allowance was established.

NOTE 13. FUTURE MINIMUM RENTAL INCOME UNDER OPERATING LEASES

ARL's operations include the leasing of commercial properties (office buildings, industrial warehouses and retail centers). The leases, thereon, expire at various dates through 2029. The following is a schedule of minimum future rents due to ARL under non-cancelable operating leases as of December 31, 2018 (dollars in thousands):

Year	Amount
2019	\$ 27,346
2020	23,805
2021	21,249
2022	18,033
2023	12,825
Thereafter	13,983
Total	\$ 117,241

NOTE 14. OPERATING SEGMENTS

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, land and other. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative and other expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, equity in partnerships and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory, net income and incentive fees, general and administrative, non-controlling interests and net loss from discontinued operations before gains on sale of real estate.

The segment labeled as "Other" consists of revenue and operating expenses related to the notes receivable and corporate debt.

Presented below is the Company's reportable segments' operating income including segment assets and expenditures for the years 2018, 2017 and 2016 (dollars in thousands):

For the Twelve Months Ended December 31, 2018	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 33,113	\$ 87,832	\$ 1	\$ 10	\$ 120,956
Operating expenses	(16,252)	(42,134)	(645)	(556)	(59,587)
Depreciation and amortization	(9,530)	(13,140)	—	—	(22,670)
Mortgage and loan interest	(7,663)	(20,671)	(636)	(37,093)	(66,063)
Interest income	—	—	—	21,645	21,645
Gain on land sales	—	—	17,404	—	17,404
Segment operating income (loss)	\$ (332)	\$ 11,887	\$ 16,124	\$ (15,994)	\$ 11,685
Capital expenditures	\$ 8,246	\$ 16,953	\$ —	\$ —	\$ 25,199
Assets	\$ 153,014	\$ 143,500	\$ 84,529	\$ —	\$ 381,043
Property Sales					
Sales price	\$ —	\$ —	\$ 43,311	\$ —	\$ 43,311
Cost of sale	—	—	(25,907)	—	(25,907)
Gain on land sales	\$ —	\$ —	\$ 17,404	\$ —	\$ 17,404
For the Twelve Months Ended December 31, 2017					
	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 33,286	\$ 92,807	\$ 111	\$ 17	\$ 126,221
Operating expenses	(18,549)	(43,677)	(878)	(987)	(64,091)
Depreciation and amortization	(9,358)	(16,354)	—	33	(25,679)
Mortgage and loan interest	(7,527)	(22,347)	(1,945)	(34,352)	(66,171)
Interest income	—	—	—	18,941	18,941
Gain on sale of income producing properties	2,391	12,760	1,547	—	16,698
Gain on land sales	—	—	4,884	—	4,884
Segment operating income (loss)	\$ 243	\$ 23,189	\$ 3,719	\$ (16,348)	\$ 10,803
Capital expenditures	\$ (5,817)	\$ 1,402	\$ 609	\$ —	\$ (3,806)
Assets	\$ 137,157	\$ 727,508	\$ 123,452	\$ —	\$ 988,117
Property Sales					
Sales price	\$ 5,050	\$ —	\$ 29,969	\$ —	\$ 35,019
Cost of sale	(2,659)	—	(23,538)	—	(26,197)
Recognized prior deferred gain	—	12,760	—	—	12,760
Gain on sale	\$ 2,391	\$ 12,760	\$ 6,431	\$ —	\$ 21,582
For the Twelve Months Ended December 31, 2016					
	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 33,026	\$ 86,603	\$ 30	\$ 4	\$ 119,663
Operating expenses	(20,398)	(40,786)	(1,745)	(21)	(62,950)
Depreciation and amortization	(9,099)	(14,759)	—	73	(23,785)
Mortgage and loan interest	(7,191)	(25,381)	(2,232)	(24,558)	(59,362)

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Interest income	—	—	—	20,453	20,453
Gain on sale of income producing properties	(238) 16,445	—	—	16,207
Gain on land sales	—	—	3,121	—	3,121
Segment operating income (loss)	\$ (3,900	) \$ 22,122	\$(826	) \$(4,049	) \$ 13,347
Capital expenditures	\$ 5,008	\$ 864	\$ 268	\$—	\$ 6,140
Assets	\$ 150,838	\$ 622,061	\$ 128,107	\$—	\$ 901,006
Property Sales					
Sales price	\$ 1,500	\$ 20,350	\$ 29,128	\$—	\$ 50,978
Cost of sale	(1,738	) (3,905	) (26,007	) —	(31,650
Gain on sale	\$ (238	) \$ 16,445	\$ 3,121	\$—	\$ 19,328

The table below reflects the reconciliation of segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	For the Years Ended December		
	2018	2017	2016
Segment operating income (loss)	\$11,685	\$10,803	\$13,347
Other non-segment items of income (expense)			
General and administrative	(12,708)	(7,691)	(7,119)
Net income fee to related party	(631)	(250)	(257)
Advisory fee to related party	(11,475)	(11,082)	(10,918)
Other income	28,993	4,082	2,091
Gain on disposition of 50% interest in VAA	154,126	—	—
Loss on sale of investments	—	(331)	—
Earnings from unconsolidated joint ventures and investees	1,513	309	493
Foreign currency transaction gain (loss)	12,399	(4,536)	—
Income tax expense	(1,210)	(180)	(46)
Net income (loss) from continuing operations	\$182,692	\$(8,876)	\$(2,409)

The table below reflects the reconciliation of segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	For the Years Ended December 31,		
	2018	2017	2016
Segment assets	\$381,043	\$988,117	\$901,006
Investments in unconsolidated subsidiaries and investees	76,001	6,396	6,087
Notes and interest receivable	126,058	112,095	126,564
Other assets and receivables	243,047	190,112	141,252
Total assets	\$826,149	\$1,296,720	\$1,174,909

NOTE 15. QUARTERLY RESULTS OF OPERATIONS

The following is a tabulation of quarterly results of operations for the years 2018, 2017 and 2016. Quarterly results presented differ from those previously reported in ARL's Form 10-Q due to the reclassification of the operations of properties sold or held for sale to discontinued operations in accordance with ASC topic 360:

	Three Months Ended 2018			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
Total operating revenues	\$31,083	\$31,607	\$33,409	\$24,857
Total operating expenses	26,165	27,990	28,199	24,717
Operating income	4,918	3,617	5,210	140
Other (expense) income	(6,638)	) 2,678	5,955	(3,508)
(Loss) income before gain on sales, non-controlling interest, and taxes	(1,720)	) 6,295	11,165	(3,368)
Gain on disposition of 50% interest in VAA	—	—	—	154,126
Gain on land sales	1,335	—	12,243	3,826
Income tax expense	—	—	(792)	) (418)
Net income (loss) from continued operations	(385)	) 6,295	22,616	154,166
Net income (loss)	(385)	) 6,295	22,616	154,166
Less: net (income) attributable to non-controlling interest	(275)	) (441)	) (2,265)	) (6,012)
Preferred dividend requirement	(225)	) (225)	) (225)	) (226)
Net (loss) income applicable to common shares	\$ (885)	) \$5,629	\$20,126	\$147,928
PER SHARE DATA				
Earnings per share - basic				
Income (loss) from continued operations	\$ (0.06)	) \$0.35	\$1.26	\$9.26
Net income (loss) applicable to common shares	\$ (0.06)	) \$0.35	\$1.26	\$9.26
Weighted average common shares used in computing earnings per share	15,938,077	15,997,076	15,997,076	15,997,076
Earnings per share - diluted				
Income (loss) from continued operations	\$ (0.06)	) \$0.35	\$1.26	\$9.26
Net income (loss) applicable to common shares	\$ (0.06)	) \$0.35	\$1.26	\$9.26
Weighted average common shares used in computing diluted earnings per share	15,938,077	15,997,076	15,997,076	15,997,076

Three Months Ended 2017

	March 31,	June 30,	September 30,	December 31,
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(dollars in thousands, except share and per share amounts)

Total operating revenues	\$31,822	\$31,587	\$31,807	\$31,005
Total operating expenses	27,345	26,759	26,397	28,292
Operating income (loss)	4,477	4,828	5,410	2,713
Other expense	(10,829)	(15,676)	(9,348)	(11,853)
Loss before gain on sales, non-controlling interest, and taxes	(6,352)	(10,848)	(3,938)	(9,140)
Gain (loss) on sale of income producing properties	—	—	12,760	3,938
Gain (loss) on land sales	445	(476)	1,062	3,853
Income tax benefit (expense)	—	—	—	(180)
Net income (loss) from continued operations	(5,907)	(11,324)	9,884	(1,529)
Net income (loss)	(5,907)	(11,324)	9,884	(1,529)
Less: net (income) loss attributable to non-controlling interest	193	435	(522)	339
Preferred dividend requirement	(275)	(275)	(275)	(280)
Net (loss) income applicable to common shares	\$(5,989)	\$(11,164)	\$9,087	\$(1,470)

PER SHARE DATA

Earnings per share - basic				
Loss from continued operations	\$(0.39)	\$(0.72)	\$0.59	\$(0.09)
Net income (loss) applicable to common shares	\$(0.39)	\$(0.72)	\$0.59	\$(0.09)
Weighted average common shares used in computing earnings per share	15,514,360	15,514,360	15,514,360	15,514,360

Earnings per share - diluted				
Loss from continued operations	\$(0.39)	\$(0.72)	\$0.59	\$(0.09)
Net income (loss) applicable to common shares	\$(0.39)	\$(0.72)	\$0.59	\$(0.09)
Weighted average common shares used in computing diluted earnings per share	15,514,360	15,514,360	15,514,360	15,514,360

	Three Months Ended 2016			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
Total operating revenues	\$29,205	\$30,834	\$30,067	\$29,557
Total operating expenses	25,881	26,212	26,272	26,664
Operating income (loss)	3,324	4,622	3,795	2,893
Other expense	(8,470)	(8,156)	(9,252)	(10,447)
Loss before gain on sales, non-controlling interest, and taxes	(5,146)	(3,534)	(5,457)	(7,554)
Gain (loss) on sale of income producing properties	(244)	5,168	—	11,283
Gain (loss) on land sales	1,652	1,719	555	(805)
Income tax benefit (expense)	—	—	(46)	—
Net income (loss) from continued operations	(3,738)	3,353	(4,948)	2,924
Net loss from discontinued operations	2	—	—	(3)
Net income (loss)	(3,736)	3,353	(4,948)	2,921
Less: net (income) loss attributable to non-controlling interest	530	(864)	1,194	(1,182)
Preferred dividend requirement	(497)	(53)	(275)	(276)
Net (loss) income applicable to common shares	\$ (3,703)	\$ 2,436	\$ (4,029)	\$ 1,463
PER SHARE DATA				
Earnings per share - basic				
Loss from continued operations	\$ (0.24)	\$ 0.16	\$ (0.26)	\$ 0.09
Income from discontinued operations	—	—	—	—
Net income (loss) applicable to common shares	\$ (0.24)	\$ 0.16	\$ (0.26)	\$ 0.09
Weighted average common shares used in computing earnings per share	15,514,360	15,514,360	15,514,360	15,514,360
Earnings per share - diluted				
Loss from continued operations	\$ (0.24)	\$ 0.16	\$ (0.26)	\$ 0.09
Income from discontinued operations	—	—	—	—
Net income (loss) applicable to common shares	\$ (0.24)	\$ 0.16	\$ (0.26)	\$ 0.09
Weighted average common shares used in computing diluted earnings per share	15,514,360	15,514,360	15,514,360	15,514,360

NOTE 16. COMMITMENTS, CONTINGENCIES, AND LIQUIDITY

Liquidity. Management believes that ARL will generate excess cash flow from property operations in 2019. Such excess however, will not be sufficient to discharge all of ARL's obligations as they become due. Management intends to sell land and income-producing real estate, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Guarantees. TCI is a primary guarantor, on a \$39.1 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2018 UHF was in compliance with the covenants to the loan agreement.

Partnership Buyouts. ARL is the limited partner in various partnerships related to the construction of residential properties. As permitted in the respective partnership agreements, ARL intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buyout the nonaffiliated partners are limited to development fees earned by the nonaffiliated partners, and are set forth in the respective partnership agreements.

ART and ART Midwest, Inc.

While the Company and all entities in which the Company has a direct or indirect equity interest are not parties to or obligated in any way for the outcome, a formerly owned entity (American Realty Trust, Inc.) and its former subsidiary (ART Midwest, Inc.) have been engaged since 1999 in litigation with Mr. David Clapper and entities related to Mr. Clapper (collectively, the “Clapper Parties”). The matter originally involved a transaction in 1998 in which ART Midwest, Inc. was to acquire eight residential apartment complexes from the Clapper Parties. Through the years, a number of rulings, both for and against American Realty Trust, Inc. “ART” and ART Midwest, Inc., were issued. In October 2011, a ruling was issued under which the Clapper Parties received a judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million interest. The ruling was against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties, but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. Subsequently, the trial court recalculated the damage award, reducing it to approximately \$59 million, inclusive of actual damages and then current interest. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in this matter.

The Clapper Parties subsequently filed a new lawsuit against ARI, its subsidiary EQK Holdings, Inc. "EQK", and ART. The Clapper Parties seek damages from ARL for payment by ART to ARL of ART's stock in EQK in exchange for a release of the Antecedent Debt owed by ART to ARI. In February 2018 the court determined that this legal matter should not have been filed in federal court and therefore granted motions to dismiss on jurisdictional grounds. In June 2018, the court overruled its own grant of motions to dismiss and reinstated the case. We continue to vigorously defend the case and management believes it has defenses to the claims.

In 2005, ART filed suit against a major national law firm over the initial transaction. That action was initially abated while the principal case with the Clapper Parties was pending, but the abatement was recently lifted. The trial court subsequently dismissed the case on procedural grounds, but ART has filed a notice of appeal. The appeal was heard in February 2018 and we are awaiting a ruling by the appeals court. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of \$10 million. At December 31, 2012, the Company fully reserved and valued such note at zero.

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust ("CMET"), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, \$160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. ("Basic").

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for "lost opportunity," as well as damages in favor of ART and in favor of TCI and its subsidiaries for "increased costs" and "lost opportunity." The original Trial Court judge ignored the jury's findings, however, and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury's findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic was \$0.256 million in damages, plus pre-judgment interest of \$0.192 million for a total amount of \$0.448 million. The Judgment awarded ART was \$14.2 million in damages, plus pre-judgment interest of \$10.6 million for a total amount of \$24.8 million.

The Judgment awarded TCI was \$11.1 million, plus pre-judgment interest of \$8.4 million for a total amount of \$19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages were paid. Lastly, the Judgment awarded Basic, ART, and TCI was \$1.6 million collectively in attorneys' fees from Dynex Commercial, Inc.

TCI is working with counsel to identify assets and collect on the Final Judgment against Dynex Commercial, Inc., as well as explore possible additional claims, if any, against Dynex Capital, Inc.

Berger Litigation

On February 4, 2019, an individual claiming to be a stockholder holding 7,900 shares of Common Stock of Income Opportunity Realty Investors, Inc. (“**IOR**”) filed a Complaint in the United States District Court for the Northern District of Texas, Dallas Division, individually and allegedly derivatively on behalf of IOR, against Transcontinental Realty Investors, Inc. (“**TCI**”), American Realty Investors, Inc. (“**ARL**”), (TCI is a shareholder of IOR, ARL is a shareholder of TCI) Pillar Income Asset Management, Inc. (“**Pillar**”), (collectively the “Companies”), certain officers and directors of the Companies (“Additional Parties”) and two other individuals. The Complaint filed alleges that the sale and/or exchange of certain tangible and intangible property between the Companies and IOR during the last ten years of business operations constitutes a breach of fiduciary duty by the one or more of Companies, the Additional Defendants and/or the directors of IOR. The case alleges other related claims. The Plaintiff seeks certification as a representative of IOR and all of its shareholders, unspecified damages, a return to IOR of various funds and an award of costs, expenses, disbursements (including Plaintiff’s attorneys’ fees) and prejudgment and post-judgment interest. The named Defendants intend to vigorously defend the action, deny all of the allegations of the Complaint, and believe the allegations to be wholly without any merit. While only in the early stages of defending the case, it is not clear that Plaintiff owns any shares of Common Stock of IOR or would be a proper representative of IOR or a class of minority stockholders.

NOTE 17. EARNINGS PER SHARE

Earnings per share (“EPS”) has been computed pursuant to the provisions of ASC Topic 260 “*Earnings Per Share*.” The computation of basic EPS is calculated by dividing net income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding.

For the years ended December 31, 2018 and 2017, we had 2,000,614 and 1,800,614 of outstanding shares of Series A 10.0% cumulative convertible preferred stock, respectively. These shares may be converted into common stock at 90% of the average daily closing price of the common stock for the prior 20 trading days. These are considered in the computation of diluted earnings per share if the effect of applying the if-converted method is dilutive. On January 12, 2018 Realty Advisors (“RAI”) converted 200,000 preferred shares, plus accrued dividends into 482,716 shares of common stock. Of the outstanding 1,800,614 shares, 900,000 are held by ARL. Dividends are not paid on the shares owned by ARL.

Prior to July 17, 2014, RAI owned 2,451,435 shares of the outstanding Series A 10.0% convertible preferred stock and had accrued dividends unpaid of \$15.1 million. On July 17, 2014, RAI converted 890,797 shares, including \$6.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 2,502,230 new shares of ARL common stock. On April 9, 2015, RAI converted 460,638 shares including \$2.3 million in accumulated dividends unpaid for these shares, into the requisite number of

shares of common stock. This conversion resulted in the issuance of 1,486,741 new shares of ARL common stock. As of December 31, 2018, RAI owns 900,000 shares of the outstanding Series A convertible preferred stock and has accrued unpaid dividends of approximately \$9.9 million.

The Company had 135,000 shares of Series K convertible preferred stock, which were held by TCI and used as collateral on a note. The note has been paid in full and the Series K preferred stock was cancelled May 7, 2014.

Prior to January 1, 2015, the Company had 1,000 shares of stock options outstanding. These options expired unexercised January 1, 2015. The options are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the computation for the prior periods if applying the “treasury stock” method is dilutive.

As of December 31, 2018 and 2017, the Series A convertible preferred stock and the stock options were anti-dilutive and therefore not included in the EPS calculation.

NOTE 18. *SUBSEQUENT EVENTS*

The date to which events occurring after December 31, 2018, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosure is March 31, 2019, which is the date of which the financial statements were available to be issued. There are no subsequent events that would require an adjustment to the financial statements.

Schedule III

AMERICAN REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2018

(dollars in thousands)

Property/Location	Initial Cost		Cost Capitalized Subsequent to Acquisition		Asset Impairment	Gross Amount of Which Carried at End of Year		Total	Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciated In Latest Status of Operation is Correct
	Land	Buildings	Improvements	and		Building & Improvements	Asset Impairment					
Properties Held for Investment												
Apartments												
Chelsea, Beaumont, TX	\$8,953	\$1,225	\$11,025	\$—	\$—	\$1,225	\$11,025	\$12,250	\$23	1999	11/18	40 years
Farnham Park, Port Aurther, TX	9,348	1,010	9,086	—	—	1,010	9,086	10,096	—		11/18	40 years
Landing, Houma, LA	15,720	2,012	18,115	—	—	2,012	18,115	20,127	38		12/18	40 years
Legacy at Pleasant Grove, Texarkana, TX	14,224	2,005	17,892	217	—	2,005	18,109	20,114	1,817	2006	12/14	40 years
Toulon, Gautier, MS	19,844	1,173	17,181	372	—	1,173	17,553	18,726	2,640	2011	9 /09	40 years
	693	141	1,267	—	—	141	1,267	1,408	116	1972	6 /15	

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Villager, Ft. Walton, FL												40
Villas at Bon Secour, Gulf Shores, AL	11,730	2,715	15,385	—	—	2,715	15,385	18,100	160	2007	7 /18	40
Vista Ridge, Tupelo, MS	10,394	1,339	13,398	—	—	1,339	13,398	14,737	1,544	2009	10/15	40
Westwood, Mary Ester, FL	3,854	692	6,650	—	—	692	6,650	7,342	596	1972	6 /15	40
Total Apartments Held for Investment	\$94,760	\$12,312	\$109,999	\$589	\$—	\$12,312	\$110,588	\$122,900	\$6,934			
Apartment Under Construction												
Apalache Point	—	—	—	21	—	—	21	21	—	—	—	—
Forest Pines	—	5,040	—	300	—	5,040	300	5,340	—	—	6 /17	—
Parc at Denham	3,325	714	—	4,138	—	714	4,138	4,852	—	—	—	—
Overlook at Allensville Square II, Sevierville, TN	10,529	1,933	—	12,567	—	1,933	12,567	14,500	—	—	11/15	—
Sugar Mill II	547	576	—	—	—	576	—	576	—	—	—	—
Total Apartments Under Construction	\$14,401	\$8,263	\$—	\$17,026	\$—	\$8,263	\$17,026	\$25,289	\$—	\$		

Property/Location	Encumbrance	Land	Buildings	Improvements	Asset Impairment	Land	Building & Improvements	Total	A	D
Commercial										
600 Las Colinas, Las Colinas, TX	\$37,926	\$5,751	\$51,759	\$19,317	\$—	\$5,751	\$71,076	\$76,827	\$	
770 South Post Oak, Houston, TX	12,394	1,763	15,834	412	—	1,763	16,246	18,009		
Bridgeview Plaza, LaCrosse, WI	4,423	—	—	1,157	—	—	1,157	1,157		
Browning Place (Park West I), Farmers Branch, TX	41,891	5,096	45,868	22,848	—	5,096	68,716	73,812		
Mahogany Run Golf Course, US Virgin Islands	—	—	—	—	—	—	—	—		

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Cross County Mall S/C - IL C2117	—	—	—	—	—	—	—	—
Fruitland Plaza, Fruitland Park, FL	—	17	—	83	—	17	83	100
Senlac VHP, Farmers Branch, TX	—	622	—	142	—	622	142	764
Stanford Center, Dallas, TX	40,000	20,278	34,862	7,953	-9,600	20,278	42,815	53,493
Total Commercial Held for Investment	\$136,634	\$33,527	\$148,323	\$51,912	\$(9,600)	\$33,527	\$200,235	\$224,162
Land								
Bonneau Land, Farmers Branch, TX	\$—	\$1,309	\$—	\$—	\$—	\$1,309	\$—	\$1,309
Cooks Lane, Fort Worth, TX	—	1,094	—	—	—	1,094	—	1,094
Dedeaux, Gulfport, MS	—	1,612	—	46	(38)	1,612	46	1,620
Gautier Land, Gautier, MS	—	202	—	—	—	202	—	202
Lake Shore Villas, Humble, TX	—	81	—	3	—	81	3	84
Lubbock Land, Lubbock, TX	—	234	—	—	—	234	—	234
Nakash, Malden, MO	—	103	—	—	—	103	—	103
Nashville, Nashville, TN	—	278	—	59	—	278	59	337
Ocean Estates, Gulfport, MS	—	1,418	—	390	—	1,418	390	1,808
Texas Plaza Land, Irving, TX	—	1,738	—	—	(238)	1,738	—	1,500
Union Pacific Railroad Land, Dallas, TX	—	130	—	—	—	130	—	130
Willowick Land, Pensacola, FL	—	137	—	—	—	137	—	137
Windmill Farms Land, Kaufman County, TX	14,402	57,345	—	13,911	(20,343)	57,345	13,911	50,913
2427 Valley View Ln, Farmers Branch, TX	—	76	—	—	—	76	—	76
GNB Land ARI 8/06 L2870	2,220	—	—	—	—	—	—	—
GNB Land Edina 6/07 L2875	3,100	—	—	—	—	—	—	—
Lacy Longhorn Land, Farmers Branch, TX	—	1,169	—	(760)	—	1,169	(760)	409
Manhattan Land	—	(344)	—	—	—	(344)	—	(344)
Mininvest Land, Dallas, TX	—	7	—	—	—	7	—	7
Mira Lago, Farmers Branch, TX	—	53	—	15	—	53	15	68
Nicholson Croslin, Dallas, TX	—	184	—	(118)	—	184	(118)	66
Nicholson Mendoza, Dallas, TX	—	80	—	(51)	—	80	(51)	29
Valley View 34 (Mercer Crossing), Farmers Branch, TX	—	1,173	—	(945)	—	1,173	(945)	228
Mercer Crossing Land L2876	—	12,029	—	—	—	12,029	—	12,029
Mercer Crossing Land L2877	—	2,834	—	—	—	2,834	—	2,834
Dominion Mercer, Farmers Branch, TX	6,400	3,801	—	2,774	(133)	3,801	2,774	6,442
McKinney 36, Collin County, TX	1,092	456	—	161	(19)	456	161	598
Sugar Mill	—	—	—	—	—	—	—	—
Travis Ranch Land, Kaufman County, TX	307	80	—	—	—	80	—	80
	—	1,517	—	—	—	1,517	—	1,517

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Travis Ranch Retail, Kaufman
City, TX

Total Land Held for Investment	\$27,521	\$88,796	\$—	\$15,485	\$(20,771)	\$88,796	\$15,485	\$83,510	\$
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Corporate
Departments/Investments/Misc.

TCI - Corporate	\$18,225	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$
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Total Corporate	\$18,225	\$—	\$—	\$—	\$—	\$—	\$—	—	\$
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Departments/Investments/Misc.

Total Properties Held for Investment	\$291,541	\$142,898	\$258,322	\$85,012	\$(30,371)	\$142,898	\$343,334	\$455,861	\$
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Properties Held for Sale

Commercial

Total Commercial Held for Sale

Dunes Plaza C2195	\$376	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$
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Total Properties Held for Sale	\$376	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$
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Land

Dominion Tract, Dallas, TX	\$—	\$2,083	\$—	\$53	\$—	\$2,083	\$53	\$2,136	\$
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Hollywood Casino Tract I, Farmers Branch, TX	—	(482)	—	—	—	(482)	—	(482)	—
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Whorton Land, Bentonville, AR	—	3,510	—	568	(2,451)	3,510	568	1,627	—
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Total Properties Subject to Sales
Contract

	\$—	\$5,111	\$—	\$621	\$(2,451)	\$5,111	\$621	\$3,281	\$
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TOTAL: Real Estate	\$291,917	\$148,009	\$258,322	\$85,633	\$(32,822)	\$148,009	\$343,955	\$459,142	\$
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SCHEDULE III**(Continued)****AMERICAN REALTY INVESTORS, INC.****REAL ESTATE AND ACCUMULATED DEPRECIATION****As of December 31, 2018**

	2018	2017	2016
	(dollars in thousands)		
Reconciliation of Real Estate			
Balance at January 1,	\$1,165,663	\$1,066,603	\$1,003,545
Additions			
Acquisitions, improvements and construction	576,232	129,484	112,762
Deductions			
Sale of real estate	(1,282,752)	(30,424)	(49,704)
Asset impairments	—	—	—
Balance at December 31,	\$459,143	\$1,165,663	\$1,066,603
Reconciliation of Accumulated Depreciation			
Balance at January 1,	\$177,546	\$165,597	\$150,038
Additions			
Depreciation	22,670	24,417	23,277
Deductions			
Sale of real estate	(122,117)	(12,468)	(7,718)
Balance at December 31,	\$78,099	\$177,546	\$165,597

SCHEDULE IV

AMERICAN REALTY INVESTORS, INC.

MORTGAGE LOANS RECEIVABLE ON REAL ESTATE

December 31, 2018

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Face Amount of Mortgage Liens	Carrying Amount of Mortgage	Principal or Loans Subject to Delinquent Principal or Interest
(dollars in thousands)						
Christine Tunney Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	\$—\$ 49	\$ 48	\$ —
Compton Partners Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	— 289	289	—
David Monier Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	— 97	97	—
Earl Samson III Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	— 96	96	—
Edward Samson III Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	— 96	96	—
Hammon Operating Corporation Class A limited partnership interests in Edina Park Plaza Associates, L.P.	10.00 %	Sep-19	Interest only paid quarterly.	— 193	193	—
Harold Wolfe	10.00 %	Sep-19	Interest only paid quarterly.	— 193	193	—

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Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Herrick Partners	10.00 %	Sep-19	Interest only paid quarterly.	—	91	91 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Mary Anna MacLean	10.00 %	Sep-19	Interest only paid quarterly.	—	193	193 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Michael Monier	10.00 %	Sep-19	Interest only paid quarterly.	—	304	304 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Michael White	10.00 %	Sep-19	Interest only paid quarterly.	—	96	96 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Palmer Brown Madden	10.00 %	Sep-19	Interest only paid quarterly.	—	96	96 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Richard Schmaltz	10.00 %	Sep-19	Interest only paid quarterly.	—	203	203 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Robert Baylis	10.00 %	Sep-19	Interest only paid quarterly.	—	193	193 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Sherman Bull	10.00 %	Sep-19	Interest only paid quarterly.	—	193	193 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
Willingham Revocable Trust	10.00 %	Sep-19	Interest only paid quarterly.	—	96	96 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
William H. Ingram	10.00 %	Sep-19	Interest only paid quarterly.	—	96	96 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						
William S. Urkiel	10.00 %	Sep-19	Interest only paid quarterly.	—	97	97 —
Class A limited partnership interests in Edina Park Plaza Associates, L.P.						

SCHEDULE IV

(Continued)

AMERICAN REALTY INVESTORS, INC.

MORTGAGE LOANS RECEIVABLES ON REAL ESTATE
December 31, 2018

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage	Carrying Amount of Mortgage	Principal or Loans Subject to Delinquent Principal or Interest
(dollars in thousands)							
Unified Housing Foundation, Inc. (Reserve at White Rock I) 100% Interest in UH of Harvest Hill I, LLC	12.00	% Dec-32	Excess cash flow	15,640	2,794	2,485	—
Unified Housing Foundation, Inc. (Reserve at White Rock II) 100% Interest in UH of Harvest Hill, LLC	12.00	% Dec-32	Excess cash flow	14,026	2,555	2,555	—
Unified Housing Foundation, Inc. (Trails at White Rock) 100% Interest in UH of Harvest Hill III, LLC	12.00	% Dec-32	Excess cash flow	21,712	3,815	3,815	—
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble, LLC) (68.5% of cash flow)	12.00	% Dec-32	Excess cash flow	15,965	2,959	2,732	—
Unified Housing Foundation, Inc. (Kensington Park/UH of Kensington, LLC) 100% Interest in UH of Kensington, LLC	12.00	% Dec-32	Excess cash flow	18,723	4,310	3,933	—
	12	% Dec-32		—	340	369	—

Unified Housing Foundation, Inc. (Walnut Park Crossing)			Excess cash flow					
Unified Housing Foundation, Inc. (Samsung, Inc/Braker Lane)	12	% Dec-32	Excess cash flow	—	2,794	720	—	
Unified Housing Foundation, Inc. (Terraces of Marine Creek/Blue Lake at Marine Creek)	12	% Dec-32	Excess cash flow	—	140	128	—	
Unified Housing Foundation, Inc. (Inwood on the Park/UH of Inwood, LLC)	12.00	% Dec-32	Excess cash flow	22,227	5,462	3,639	—	
100% Interest in UH of Inwood, LLC			Excess cash flow					
Unified Housing Foundation, Inc. (Plaza at Chase Oaks/UH of Chase Oaks)	12	% Dec-32	Excess cash flow	—	143	132	—	
H198, LLC	12.00	% Jan-20	Excess cash flow	—	5,907	5,907	—	
Las Vegas Land				—				
H198, LLC	12.00	% Oct-19	Excess cash flow	—	496	496	—	
Legacy at Pleasant Grove				—				
Oulan-Chikh Family Trust	8.00	% Mar-19	Excess cash flow	—	174	174	—	
H198, LLC	12.00	% Oct-19	Excess cash flow	—	4,554	4,554	—	
McKinney Ranch Land	6	% Sep-20		—				
Forest Pines	5	% Sep-19	Excess cash flow	—	2,223	2,223	—	
Spyglass Apartments of Ennis, LP	5	% Nov-19	Excess cash flow	—	5,083	5,083	—	
Bellwether Ridge	5	% May-20	Excess cash flow	—	3,429	3,429	—	
Parc at Windmill Farms	5	% May-20	Excess cash flow	—	6,066	6,066	—	
Unified Housing Foundation, Inc. (Echo Station)	12.00	% Dec-32	Excess cash flow	9,719	2,794	1,481	—	
100% Interest in UH of Temple, LLC								
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble, LLC) (31.5% of cash flow)	12.00	% Dec-32	Excess cash flow	15,756	8,836	6,369	—	
Interest in Unified Housing Foundation Inc.								
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble, LLC)	12.00	% Dec-32	Excess cash flow	15,965	2,959	2,000	—	
100% Interest in HFS of Humble, LLC								
Unified Housing Foundation, Inc. (Limestone Ranch)	12.00	% Dec-32	Excess cash flow	18,641	12,335	7,953	—	

100% Interest in UH of Vista Ridge, LLC								
Unified Housing Foundation, Inc. (Timbers of Terrell)	12.00	%	Dec-32	Excess cash flow	7,294	1,702	1,323	—
100% Interest in UH of Terrell, LLC								
Unified Housing Foundation, Inc. (Tivoli)	12.00	%	Dec-32	Excess cash flow	10,398	10,742	6,140	—
100% Interest in UH of Tivoli, LLC								
Unified Housing Foundation, Inc (2015 Advisory Fee)	12.00	%	Dec-19	Excess cash flow	—	3,994	3,994	—
Unified Housing Foundation, Inc (2008-2014 Advisory Fee)	12.00	%	Dec-19	Excess cash flow	—	6,407	6,407	—
Unified Housing Foundation, Inc (2017 Advisory Fee)	12.00	%	Jun-19	Excess cash flow		5,760	5,760	—
Unified Housing Foundation, Inc (2018 Advisory Fee)	12.00	%	Jun-21	Excess cash flow		5,314	5,314	—
Realty Advisors Management, Inc.	2.28	%	Dec-19	Interest only paid quarterly.	—	20,387	20,387	—
One Realco Corporation	3.00	%	Jan-20			10,000	7,000	—
Various related party notes	various		various	Excess cash flow	—	1,349	2,890	—
Various non-related party notes	various		various		—	496	1,034	—
							\$ 129,162	
				Accrued interest			11,165	
				Allowance for estimated losses			(14,269)	
							\$ 126,058	

SCHEDULE IV

AMERICAN REALTY INVESTORS, INC.
MORTGAGE LOANS RECEIVABLES ON REAL ESTATE
As of December 31,

	2018	2017	2016
	(dollars in thousands)		
Balance at January 1,	127,865	143,601	137,280
Additions			
New mortgage loans	13,123	15,741	11,703
Increase (decrease) of interest receivable on mortgage loans	(6,389)	581	13,835
Deductions			
Amounts received	(8,541)	(32,058)	(19,217)
Balance at December 31,	126,058	127,865	143,601

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth in *Internal Control—Integrated*

Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on management's assessments and those criteria, management has concluded that Company's internal control over financial reporting was effective as of December 31, 2018.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial report. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

In preparation for management's report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. There were no changes in our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Directors

The affairs of ARL are managed by a Board of Directors. The Directors are elected at the annual meeting of stockholders or are appointed by the incumbent Board and serve until the next annual meeting of stockholders or until a successor has been elected or appointed.

It is the Board's objective that a majority of the Board consists of independent directors. For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with ARL. The Board has established guidelines to assist it in determining director independence which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing rules. The independence guidelines are set forth in ARL's "Corporate Governance Guidelines". The text of this document has been posted on ARL's Internet website at (www.americanrealtyinvest.com) and is available in print to any shareholder who requests it. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

ARL has adopted a code of conduct that applies to all Directors, officers and employees, including our principal executive officer, principal financial officer, and principal accounting officer. Stockholders may find our code of conduct on our website by going to our website address at (www.americanrealtyinvest.com). We will post any amendments to the code of conduct, as well as any waivers that are required to be disclosed by the rules of the SEC or the New York Stock Exchange, on our website.

Our Board of Directors has adopted charters for our Audit, Compensation, and Governance and Nominating Committees of the Board of Directors. Stockholders may find these documents on our website by going to the website address at (www.americanrealtyinvest.com). You may also obtain a printed copy of the materials referred to by contacting us at the following address:

American Realty Investors, Inc.

Attn: Investor Relations

1603 LBJ Freeway, Suite 800

Dallas, Texas 75234

Telephone: 469-522-4200

All members of the Audit Committee and the Governance and Nominating Committee must be independent directors. Members of the Audit Committee must also satisfy additional independence requirements, which provide (i) that they may not accept, directly or indirectly, any consulting, advisory, or compensatory fee from ARL or any of its subsidiaries other than their Director's compensation (other than in their capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), and (ii) no member of the Audit Committee may be an "affiliated person" of ARL or any of its subsidiaries, as defined by the Securities and Exchange Commission.

The current Directors of ARL are listed below, together with their ages, terms of service, all positions and offices with ARL and its advisor Pillar, their principal occupations, business experience, and directorships with other companies during the last five years or more. The designation "affiliated", when used below with respect to a Director, means that the Director is an officer, director, or employee of Pillar, an officer of the Company, or an officer or director of a related party of the Company. The designation "independent," when used below with respect to a Director, means that the Director is neither an officer of the Company nor a director, officer, or employee of Pillar (but may be a director of the Company), although the Company may have certain business or professional relationships with such Director as discussed in Part III, Item 13. "Certain Relationships and Related Transactions and Director Independence".

HENRY A. BUTLER, age 68, Director, Affiliated, since July 2003 and Chairman of the Board since May 2009

Mr. Butler has served as Vice President Land Sales for Pillar Income Asset Management, LLC since April 2011. Mr. Butler has been a Director of the Company since July 2003 and Chairman of the Board since May 2009. He has also served as Chairman of the Board since May 2011 and as a Director since February 2011 of IOR and Chairman of the Board since May 2009 and a Director since November 2005 of TCI.

ROBERT A. JAKUSZEWSKI, age 56, Director, Independent, since November 2005

Mr. Jakuszewski is currently has served as a Territory Manager for Artesa Labs since April 2015. He was a Medical Specialist from January 2014 to April 2015 for VAYA Pharma, Inc., Senior Medical Liaison from January 2013 to July 2013 for Vein Clinics of America, and the Vice President of Sales and Marketing from September 1998 to December 2012 for New Horizons Communications, Inc. Mr. Jakuszewski has been a Director of the Company since November 2005. He has also been a Director of IOR since March 2004 and a Director of TCI since November 2005.

TED R. MUNSELLE, age 63, Director, Independent, since February 2004

Mr. Munselle has been Vice President and Chief Financial Officer of Landmark Nurseries, Inc. since October 1998. On February 17, 2012, he was appointed as a member of the Board of Directors for Spindletop Oil & Gas Company and as Chairman of their Audit Committee. Spindletop's stock is traded on the Over-the-Counter (OTC) market. Mr. Munselle has been a Director of the Company since February 2004. He has also served as Director of IOR since May 2009 and Director of TCI since February 2004. Mr. Munselle is qualified as an Audit Committee financial expert within the meaning of SEC regulations and the Board of Directors of IOR has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE American. Mr. Munselle is a Certified Public Accountant.

RAYMOND D. ROBERTS, SR., age 87, Director, Independent, since June 2016

Mr. Roberts is currently retired. Mr. Roberts has served as Director of the Company since June 2, 2016. He has also served as Director of IOR and TCI since June 2, 2016. For more than five years prior to December 31, 2014, he was Director of Aviation of Steller Aviation, Inc., a privately held corporation engaged in the business of aircraft (Boeing 737) and logistical management.

Board Meetings and Committees

The Board of Directors held five meetings during 2018. For such year, no incumbent Director attended fewer than 75% of the aggregate of (1) the total number of meetings held by the Board during the period for which he/she had been a Director and (2) the total number of meetings held by all committees of the Board on which he/she served during the periods that he/she served. Under ARL's Corporate Governance Guidelines, each Director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including by attending meetings of the stockholders of the Company, the Board and Committees of which he is a member. The Board of Directors has standing Audit, Compensation, and Governance and Nominating Committees.

Audit Committee. The current Audit Committee was formed on February 19, 2004, and its function is to review ARL's operating and accounting procedures. The charter of the Audit Committee has also been adopted by the Board. The charter of the Audit Committee was adopted on February 19, 2004 and is available on the company's investor relations website (www.americanrealtyinvest.com). The Audit Committee is an "audit committee" for purposes of Section 3(a) (58) of the Securities Exchange Act of 1934. The current members of the Audit Committee, all of whom are independent within the meaning of the SEC Regulations, the listing standards of the New York Stock Exchange, Inc., and ARL's Corporate Governance Guidelines, are Messrs. Jakuszewski, Munselle (Chairman) and Roberts. Mr. Ted R. Munselle, a member of the Committee, is qualified as an Audit Committee financial expert within the meaning of SEC Regulations, and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange, Inc. All of the members of the Audit Committee meet the experience requirements of the listing standards of the listing standards of the New York Stock Exchange. The Audit Committee met five times during 2018.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of ARL's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The Charter of the Governance and Nominating Committee was adopted on March 22, 2004. The current members of the Committee are Messrs. Jakuszewski (Chairman), Roberts and Munselle. The Governance and Nominating Committee met two times during 2018.

Compensation Committee. The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to the Company's principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations and to monitor the development and implementation of succession plans for the principal executive officers and other key executives and make recommendations to the Board with respect to such plans. The charter of the Compensation Committee was adopted on March 22, 2004, and is available on the Company's Investor Relations website (www.americanrealtyinvest.com). The current members of the Compensation Committee are Messrs. Roberts (Chairman), Jakuszewski and Munselle. All of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE American and the Company's Corporate Governance Guidelines. The Compensation Committee is to be comprised of at least two directors who are independent of Management and the Company. The Compensation Committee met two times during 2018.

The members of the Board of Directors on the date of this Report and the Committees of the Board on which they serve are identified below:

	Audit Committee	Governance and Nominating Committee	Compensation Committee
Robert A. Jakuszewski	X	Chair	X
Ted R. Munselle	Chair	X	X
Raymond D. Roberts Sr.	X	X	Chair
Henry A. Butler			

Presiding Director

In March 2004, the Board created a new position of presiding director, whose primary responsibility is to preside over periodic executive sessions of the Board in which Management directors and other members of Management do not

participate. The presiding director also advises the Chairman of the Board and, as appropriate, Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee Chairs and performs other duties that the Board may from time to time delegate to assist the Board in fulfillment of its responsibilities.

The day following the annual meeting of stockholders held December 12, 2018 representing all stockholders of record dated November 7, 2018, the full Board met and re-appointed Ted R. Munselle as Presiding Director, to serve in such position until the Company's next annual meeting of stockholders to be held subsequently in 2019.

Determination of Director's Independence

In February 2004, the Board adopted its Corporate Governance Guidelines. The Guidelines adopted by the Board meet or exceed the new listing standards adopted during that year by the New York Stock Exchange. The full text of the Guidelines can be found on the Company's Investor Relations website (www.americanrealtyinvest.com).

Pursuant to the Guidelines, the Board undertook its annual review of director independence in March 22, 2018, and during this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and ARL and its subsidiaries and related parties, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationships between directors or their related parties and members of ARL's senior management or their related parties. As provided in the Guidelines, the purpose of such review was to determine whether such relationships or transactions were inconsistent with the determination that the director is independent.

As a result of this review, the Board affirmatively determined of the then directors, Messrs. Munselle, Jakuszewski and Roberts are each independent of the Company and its Management under the standards set forth in the Corporate Governance Guidelines.

Executive Officers

Executive officers of the Company are listed below, all except one of whom are employed by Pillar. Mr. Bertcher is employed by New Concept Energy, Inc (“NCE”). None of the executive officers receive any direct remuneration from the Company nor do any hold any options granted by the Company. Their positions with the Company are not subject to a vote of stockholders. In addition to the following executive officers, the Company has several vice presidents and assistant secretaries who are not listed herein. The ages, terms of service and all positions and offices with the Company, Pillar, other related entities, other principal occupations, business experience and directorships with other publicly held companies during the last five years or more are set forth below. No family relationships exist among any of the executive officers or directors of the Company.

DANIEL J. MOOS, 68

Mr. Moos has served as President since April 2007 and Chief Executive Officer since March 2010 of IOR, ARL and TCI. Mr. Moos has also served as Prime’s President since April 2007, Secretary since June 2011 and Treasurer since October 2013. He has also served as a Director since December 2016, President since December 2010, Chief Executive Officer since March 2011 and Treasurer since October 2013 of Pillar.

GENE S. BERTCHER, 70

Mr. Bertcher has served as Executive Vice President since May 2008, Chief Financial Officer since November 2009 and Treasurer since October 2013 of IOR, ARL and TCI. Mr. Bertcher has also served in the following capacities for NCE, a Nevada corporation which has its common stock listed on the NYSE American: Director since June 2006, Chairman of the Board since December 2006, Chief Executive Officer since December 2006, President since November 2004, Chief Financial Officer since November 1989, Treasurer since November 1989 and Secretary since October 2012. Mr. Bertcher has been employed by NCE since November 1989. He is a Certified Public Accountant.

LOUIS J. CORNA, 71

Mr. Corna has served as Executive Vice President, General Counsel/Tax Counsel and Secretary since February 2004 of IOR, ARL and TCI. He has also been Executive Vice President since March 2011 and Secretary since December 2010 of Pillar. Mr. Corna was also a Director and Vice President from June 2004 to December 2010 and Secretary from January 2005 to December 2010 of First Equity Properties, Inc., a Nevada corporation with securities registered under Section 12(g) of the Exchange Act.

Code of Ethics

ARL has adopted a code of ethics entitled “Code of Business Conduct and Ethics” that applies to all directors, officers, and employees (including those of the contractual Advisor to ARL). In addition, ARL has adopted a code of ethics entitled “Code of Ethics for Senior Financial Officers” that applies to the principal executive officer, president, principal financial officer, chief financial officer, principal accounting officer, and controller. The text of these documents has been posted on ARL’s internet website at (www.americanrealtyinvest.com) and are available in print to any stockholder who requests them.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Under the securities laws of the United States, ARL's Directors, executive officers, and any persons holding more than 10% of ARL's shares of common stock are required to report their ownership and any changes in that ownership to the Securities and Exchange Commission (the "Commission"). Specific due dates for these reports have been established and ARL is required to report any failure to file by these dates. All of these filing requirements were satisfied by ARL's directors and executive officers and 10% holders during the fiscal year ended December 31, 2014. In making these statements, ARL has relied on the written representations of its incumbent Directors and executive officers and its 10% holders and copies of the reports that they have filed with the Commission.

The Advisor

Pillar has been ARL's Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of ARL, and for setting the policies which guide it, the day-to-day operations of ARL are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with ARL's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees and as such, employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, the sole shareholder of which is MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

The May Trust is a Trust, the beneficiaries of which are the children of Gene E. Phillips. Mr. Phillips is not an officer, manager or Director of Pillar, Realty Advisors, LLC, RAI, MRHI or ARL, nor is he a Trustee of the May Trust.

Under the Advisory Agreement, Pillar is required to annually formulate and submit, for Board approval, a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, lending, foreclosure and borrowing activity, and other investments. Pillar is required to report quarterly to the Board on ARL's performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly

delegated to Pillar by the Board.

The Advisory Agreement also requires prior Board approval for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that Pillar shall be deemed to be in a fiduciary relationship to the ARL stockholders; contains a broad standard governing Pillar's liability for losses incurred by ARL; and contains guidelines for Pillar's allocation of investment opportunities as among itself, ARL and other entities it advises. Pillar is a company of which Messrs. Moos, Bertcher and Corna serve as executive officers.

The Advisory Agreement with Pillar provides for Pillar to be responsible for the day-to-day operations of ARL and for Pillar to receive, as compensation for basic management and advisory services, a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves).

In addition to base compensation, Pillar receives the following forms of additional compensation:

- (1) an annual net income fee equal to 7.5% of ARL's net income as an incentive for successful investment and management of the Company's assets;

an annual incentive sales fee to encourage periodic sales of appreciated real property at optimum value equal to (2) 10.0% of the amount, if any, by which the aggregate sales consideration for all real estate sold by ARL during such fiscal year exceeds the sum of:

(a) the cost of each such property as originally recorded in ARL's books for tax purposes (without deduction for depreciation, amortization or reserve for losses);

(b) capital improvements made to such assets during the period owned; and

all closing costs (including real estate commissions) incurred in the sale of such real estate; provided however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an (c) 8.0% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5.0% higher in the current fiscal year than in the prior fiscal year;

(3) an acquisition commission, from an unaffiliated party of any existing mortgage or loan, for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of:

(a) up to 1.0% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers; or

(b) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition;

a construction fee equal to 6.0% of the so-called "hard costs" only of any costs of construction on a completed basis, based upon amounts set forth as approved on any architect's certificate issued in connection with such construction, which fee is payable at such time as the applicable architect certifies other costs for payment to third (4) parties. The phrase "hard costs" means all actual costs of construction paid to contractors, subcontractors and third parties for materials or labor performed as part of the construction but does not include items generally regarded as "soft costs," which are consulting fees, attorneys' fees, architectural fees, permit fees and fees of other professionals; and

(5) reimbursement of certain expenses incurred by the advisor in the performance of advisory services.

The Advisory Agreement also provides that Pillar receive the following forms of compensation:

(1) a mortgage or loan acquisition fee with respect to the acquisition or purchase from an unaffiliated party of any existing mortgage loan by ARL equal to the lesser of:

(a) 1.0% of the amount of the mortgage or loan purchased; or

(b) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by ARL; and

(2) a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of:

(a) 1.0% of the amount of the loan or the amount refinanced; or

a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no

(b) such fee shall be paid on loans from Pillar without the approval of ARL's Board of Directors. No fee shall be paid on loan extensions.

Under the ARL Advisory Agreement, all or a portion of the annual advisory fee must be refunded by the Advisor if the operating expenses of ARL (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on the book value, net asset value, and net income of ARL during the fiscal year.

The ARL Advisory Agreement requires Pillar to pay to ARL one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by ARL; provided, however, that the compensation retained by Pillar shall not exceed the lesser of (1) 2.0% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The ARL Advisory Agreement further provides that Pillar shall bear the cost of certain expenses of its employees, excluding fees paid to ARL's Directors; rent and other office expenses of both Pillar and ARL (unless ARL maintains office space separate from that of Pillar); costs not directly identifiable to ARL's assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by Pillar of its duties under the Advisory Agreement.

If and to the extent that ARL shall request Pillar, or any director, officer, partner, or employee of Pillar, to render services for ARL other than those required to be rendered by the Advisory Agreement, Pillar separately would be compensated for such additional services on terms to be agreed upon between such party and ARL from time to time. As discussed below, under "Property Management and Real Estate Brokerage," effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services under similar terms as the previous agreements with Triad and Regis Realty I.

ARL entered into a Cash Management Agreement with Pillar on April 30, 2011, to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to Pillar which has a deposit liability to the Company and is responsible for payment of all payables and investment of all excess funds which earn interest at the Wall Street Journal prime rate plus 1.0% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated with the Advisory Agreement. ARL's management believes that the terms of the Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which the interests of ARL are in conflict with those of one or more directors or officers in their individual capacities, or of Pillar, or of their respective related parties. In addition to services performed for ARL, as described above, Pillar actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including TCI and IOR. The Advisory Agreement provides that Pillar may also serve as advisor to other entities.

As Advisor, Pillar is a fiduciary of ARL's public investors. In determining to which entity a particular investment opportunity will be allocated, Pillar will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. See Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence."

The terms of TCI's Advisory and Cash Management Agreements with Pillar are substantially the same as those of ARL's Advisory and Cash Management Agreements.

Pillar may assign the Advisory Agreement only with the prior consent of ARL.

The principal executive officers and directors of Pillar are set forth below:

Name	Directors/Officer(s)
Daniel J. Moos	President, Chief Executive Officer, Treasurer, Director
Gene S. Bertcher	Executive Vice President, Chief Accounting Officer
Louis J. Corna	Executive Vice President, Secretary, Tax Counsel, General Legal Counsel

Property Management

Regis Realty Prime, LLC, dba Regis Property Management, LLC (“Regis”), the sole member of which is Realty Advisors, LLC, manages our commercial properties for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

ARL engages third-party companies to lease and manage our apartment properties for a fee of 6.0% or less of the monthly gross rents collected on the residential properties under their management.

Real Estate Brokerage

Regis provides real estate brokerage services to ARL and receives brokerage commissions of 3% or less of transaction amounts.

Regis also provides real estate brokerage services to TCI under terms which differ from ARL. TCI’s brokerage agreement is computed on a sliding scale as listed below:

- (1) maximum fee of 4.5% on the first \$2.0 million of any purchase or sale transaction of which no more than 3.5% is to be paid to Regis;
- (2) maximum fee of 3.5% on transaction amounts between \$2.0 million-\$5.0 million of which no more than 3.0% is to be paid to Regis;
- (3) maximum fee of 2.5% on transaction amounts between \$5.0 million-\$10.0 million of which no more than 2.0% is to be paid to Regis; and

- (4) a maximum fee of 2.0% on transaction amounts in excess of \$10.0 million of which no more than 1.5% is to be paid to Regis.

ITEM 11. EXECUTIVE COMPENSATION

ARL has no employees, payroll, or benefit plans, and pays no compensation to its executive officers. The Directors and executive officers of ARL, who are also officers or employees of Pillar, ARL's advisor, are compensated by Pillar. Such affiliated Directors and executive officers perform a variety of services for Pillar and the amount of their compensation is determined solely by Pillar. Pillar does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance" for a more detailed discussion of compensation payable to Pillar by ARL.

The only remuneration paid by ARL is to those directors who are not officers or employees of Pillar or its related companies. The Independent Directors (1) review the business plan of ARL to determine that it is in the best interest of ARL's stockholders, (2) review the advisory contract, (3) supervise the performance of the advisor and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (4) review the reasonableness of the total fees and expenses of ARL and (5) select, when necessary, a qualified independent real estate appraiser to appraise properties acquired.

Effective February 2011 each non-affiliated Director is entitled to receive an annual retainer of \$20,000, with the Chairman of the Audit Committee to receive a one-time annual fee of \$500. Directors who are also employees of the Company or its advisor receive no additional compensation for service as a Director.

During 2018, \$60,500 was paid to non-employee Directors in total Directors' fees. The fees paid to the directors are as follows: Robert A. Jakuszewski \$20,000; Ted R. Munselle \$20,500; and Raymond D. Roberts, Sr. \$20,000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of ARL's common stock both beneficially and of record, both individually and in the aggregate, for those persons or entities known by ARL to be the owner of more than 5.0% of the shares of ARL's common stock as of the close of business on March 31, 2019.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership*		Approximate Percent of Class **	
May Realty Holdings, Inc. 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	13,929,271	(1)(2)(3)(4)	87.07	%
RA Stock Holdings, Inc. 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	1,459,828	(1)	9.13	%
Realty Advisors, Inc. 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	13,929,271	(1)(2)(3)(4)	87.07	%
Realty Advisors LLC 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	3,929,828	(1)(2)	24.57	%

* "Beneficial Ownership" means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 15,997,076 shares outstanding as of March 31, 2019.

Includes 1,459,828 shares owned by RA Stock Holdings, Inc. ("RASH"), formerly One Realco Stock Holdings, a wholly-owned subsidiary of Realty Advisors, LLC ("RALLC"), over which each of the directors of RASH, Mickey (1) Ned Phillips, may be deemed to be the beneficial owners by virtue of their positions as directors of RASH. The directors of RASH disclaim beneficial ownership of such.

Includes 2,470,000 shares owned directly by RALLC ("RALLC"), over which each of the managers, Gene (2) S. Bertcher and Daniel J. Moos, may be deemed to be beneficial owners by virtue of their positions as managers of RALLC. The managers of RALLC disclaim beneficial ownership of such shares.

- (3) Includes 9,457,140 shares owned directly by Realty Advisors, Inc. (“RAI”) over which each of the directors and officers of RAI may be deemed beneficial owners, all of which disclaim beneficial ownership.
- (4) RAI is a wholly owned subsidiary of May Realty Holdings, Inc. a Nevada corporation (“MRHI”).

Security Ownership of Management. The following table sets forth the ownership of shares of ARL's common stock, both beneficially and of record, both individually in the aggregate, for the Directors and executive officers of ARL, as of the close of business on March 31, 2019.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class **
Gene S. Bertcher	13,521,251 (1)(2)(3)(4)	87.07 %
Henry A. Butler	140,000 (3)	0.94 %
Louis J. Corna	13,521,251 (1)(2)(3)(4)	87.07 %
Robert A. Jakuszewski	140,000 (3)	0.94 %
Daniel J. Moos	13,526,251 (1)(2)(3)(4)(5)	87.07 %
Ted R. Munselle	140,000 (3)	0.94 %
Raymond D. Roberts, Sr.	140,000 (3)	0.94 %
All Directors and Executive Officers as a group (7 persons)	13,526,251 (1)(2)(3)(4)(5)	87.09 %

* "Beneficial Ownership" means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 15,997,076 shares outstanding as of March 31, 2019.

Includes 2,470,000 shares owned direct by RALLC, over which the managers and executive offices of RALLC may be deemed to be the beneficial owners by virtue of their positions as managers and executive officers of RALLC; the managers and executive officers of RALLC disclaim beneficial ownership of such shares. Also (1) includes 3,988,971 shares owned direct by RAI, over which the executive officers of RAI may be deemed to be the beneficial owners by virtue of their positions; the executive officers of RAI disclaim beneficial ownership of such shares.

Includes 1,459,828 shares owned by (RASH), over which the executive officers of RASH may be deemed the (2) beneficial owners by virtue of their positions as executive officers of RASH; the executive officers of RASH disclaim beneficial ownership of such shares.

Includes 140,000 shares owned by Transcontinental Realty Investors, Inc. "TCI", over which the directors and (3) executive officers of TCI may be deemed to be the beneficial owners by virtue of their positions as directors and executive officers of TCI; the directors and executive officers of TCI disclaim beneficial ownership of such shares.

Includes 9,457,140 shares owned by RAI, over which the executive officers of RAI may be deemed to be the (4) beneficial owners by virtue of their positions as executive of RAI; the executive officers of RAI disclaim beneficial ownership of such shares.

(5) Daniel J. Moos owns directly 5,000 shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policies with Respect to Certain Activities

Article 11 of ARL's Articles of Incorporation provides that ARL shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of ARL, (2) any director, officer or employee of the advisor, (3) the advisor, or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by ARL's Board of Directors or the appropriate committee thereof and (b) ARL's Board of Directors or committee thereof determines that such contract or transaction is fair to ARL and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of ARL entitled to vote thereon.

Article 11 defines an "Independent Director" (for purposes of that Article) as one who is neither an officer or employee of ARL, nor a director, officer or employee of ARL's advisor. This definition predates ARL's director independence guidelines adopted in February 2004.

ARL's policy is to have such contracts or transactions approved or ratified by a majority of the disinterested Directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such Directors also consider the fairness of such transactions to ARL. Management believes that, to date, such transactions have represented the best investments available at the time and they were at least as advantageous to ARL as other investments that could have been obtained.

ARL may enter into future transactions with entities, the officers, directors, or stockholders of which are also officers, directors, or stockholders of ARL, if such transactions would be beneficial to the operations of ARL and consistent with ARL's then-current investment objectives and policies, subject to approval by a majority of disinterested Directors as discussed above.

ARL does not prohibit its officers, directors, stockholders, or related parties from engaging in business activities of the types conducted by ARL.

Certain Business Relationships

Pillar has been ARL's Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of ARL, and for setting the policies which guide it, the day-to-day operations of ARL are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with ARL's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees and as such, employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, the sole shareholder of which is MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

All of ARL's directors also serve as Directors of TCI and IOR. The executive officers of ARL also serve as executive officers of TCI and IOR. As such, they owe fiduciary duties to that entity as well as to Pillar under applicable law. TCI has the same relationship with Pillar, as does ARL. Mr. Bertcher is an officer, director and employee of NCE and as such also owes fiduciary duties to NCE as well as ARL, TCI and IOR under applicable law. Daniel J. Moos is the sole Manager and Class B 2% income Member of Victory Abode Apartments LLC, and owes fiduciary duties to VAA as well as ARL, TCI and IOR.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

ARL engages third-party companies to lease and manage our apartment properties for a fee of 6.0% or less of the monthly gross rents collected on the residential properties under their management.

At December 31, 2018, ARL owned approximately 77.68% of TCI's outstanding common stock and through its interest in TCI approximately 81.25% of IOR's outstanding common stock.

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOR and their subsidiaries. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

The Company's subsidiary, TCI, has a development agreement with Unified Housing Foundation, Inc. "UHF" a non-profit corporation that provides management services for the development of residential apartment projects in the future. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

TCI is the primary guarantor, on a \$39.1 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2018 UHF was in compliance with the covenants to the loan agreement.

Related Party Transactions

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interest of our company.

In 2018, the Company paid advisory fees of \$11.5 million, net income fees of \$0.6 million, mortgage brokerage and equity refinancing fees of \$2.9 million, cost reimbursements of \$4.4 million and received interest of \$3.4 million from Pillar.

The Company paid property management fees, construction management fees and leasing commissions of \$0.5 million to Regis in 2018.

In accordance with the provisions of the VAA Joint Venture Agreement dated November 19, 2018, Southern and TCI are expected to receive approximately \$14 million (\$6 million and \$8 million, respectively) for the cash balances remaining in the transferred properties as of the date of the transaction. The cash balance was determined and agreed upon by the partners in the joint venture, and based on the estimated bank balances on the day of closing.

Additionally, VAA did not purchase the accounts receivable or the utilities' and other deposits. These items as well as the reconciliation of the expense pro-rations will result in additional adjustments being required, subject to the consent of both parties. On February 6, 2019, Abode JVP, LLC, a fully owned subsidiary of SPC, received \$7.4 million related to the cash credit and transferred it to TCI. Per the agreement, the true up pro-rations are required to be completed by May 18, 2019.

As of December 31, 2018, the Company had notes and interest receivables, net of allowances, of \$97.5 million and \$8.2 million, respectively, due from related parties. See Part 2, Item 8. Note 5. "Notes and Interest Receivable". During the current period, the Company recognized interest income of \$8.8 million, originated \$5.3 million, received no principal payments, and received interest payments of \$8.6 million from these related party notes receivables.

As of December 31, 2018, subsidiaries hold approximately 86 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as "subject to sales contract" on the Consolidated Balance Sheets. Due to the related party nature of the transactions TCI has deferred the recording of the sales in accordance with ASC 360-20.

Operating Relationships

The Company received rental revenue of \$1.2 million, \$0.8 million, and \$0.7 million in the years ended December 31, 2018, 2017, and 2016, respectively, from Pillar and its related parties for properties owned by the Company.

Advances and Loans

From time to time, ARL and its related parties have made advances to each other, which generally have not had specific repayment terms, did not bear interest, are unsecured, and have been reflected in ARL's financial statements as other assets or other liabilities. ARL and the advisor charge interest on the outstanding balance of funds advanced to or from ARL. The interest rate, set at the beginning of each quarter, is the prime rate plus 1% on the average daily cash balances advanced. At December 31, 2018, Pillar owes ARL \$70.6 million.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered to ARL for the years 2018 and 2017 by ARL's principal accounting firms, Farmer, Fuqua and Huff, L.P. and Swalm & Associates, PC:

<u>Type of Fee</u>	2018		2017	
	Farmer, Fuqua & Huff	Swalm & Associates	Farmer, Fuqua & Huff	Swalm & Associates
Audit Fees	\$821,200 ⁽¹⁾	\$ 72,210 ⁽³⁾	\$881,183 ⁽⁴⁾	\$ 72,136 ⁽³⁾
Tax Fees	54,600 ⁽²⁾	—	39,760 ⁽⁵⁾	—
Total	\$875,800	\$ 72,210	\$920,943	\$ 72,136

(1) Includes \$521,996 TCI

(2) Includes \$27,600 TCI

(3) All IOT

(4) Includes \$597,447 TCI

(5) Includes \$39,760 TCI

The audit fees for 2018 and 2017 were for professional services rendered for the audits and reviews of the consolidated financial statements of ARL and its subsidiaries. Tax fees for 2018 and 2017 were for services related to federal and state tax compliance and advice.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid to the principal auditors for the services described in the above table fall under the categories listed below:

Audit Fees. These are fees for professional services performed by the principal auditor for the audit of the Company's annual financial statements and review of financial statements included in the Company's 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagements.

Audit-Related Fees. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company's financial statements. These services

include attestations by the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards. As of December 31, 2018 the company incurred \$0.8 million of audit-related fees in connection to assurance and related services of a subsidiary.

Tax Fees. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax planning, tax consultation, returns preparation, and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All other Fees. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor's core work, which is the audit of the Company's consolidated financial statements.

The Audit Committee has established policies and procedures for the approval and pre-approval of audit services and permitted non-audit services. The Audit Committee has the responsibility to engage and terminate ARL's independent auditors, to pre-approve their performance of audit services and permitted non-audit services, to approve all audit and non-audit fees, and to set guidelines for permitted non-audit services and fees. All the fees for 2017 and 2016 were pre-approved by the Audit Committee or were within the pre-approved guidelines for permitted non-audit services and fees established by the Audit Committee, and there were no instances of waiver of approved requirements or guidelines during the same periods.

Under the Sarbanes-Oxley Act of 2002 (the “SOX Act”) and the rules of the Securities and Exchange Commission (the “SEC”), the Audit Committee of the Board of Directors is responsible for the appointment, compensation, and oversight of the work of the independent auditor. The purpose of the provisions of the SOX Act and the SEC rules for the Audit Committee role in retaining the independent auditor is two-fold. First, the authority and responsibility for the appointment, compensation, and oversight of the auditors should be with directors who are independent of management. Second, any non-audit work performed by the auditors should be reviewed and approved by these same independent directors to ensure that any non-audit services performed by the auditor do not impair the independence of the independent auditor. To implement the provisions of the SOX Act, the SEC issued rules specifying the types of services that an independent may not provide to its audit client, and governing the Audit Committee’s administration of the engagement of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor’s independence. Accordingly, the Audit Committee has adopted a pre-approval policy of audit and non-audit services (the “Policy”), which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to pre-approving non-prohibited services, the Policy of the Audit Committee covers pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor’s independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding \$25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. Consolidated Financial Statements

Report of Independent Certified Public Accountants

Consolidated Balance Sheets—December 31, 2018 and 2017

Consolidated Statements of Operations—Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows—Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income (Loss) – Years Ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule III—Real Estate and Accumulated Depreciation

Schedule IV—Mortgage Loan Receivables on Real Estate

All other schedules are omitted because they are not applicable or because the required information is shown in the financial statements or the notes thereto.

3. Incorporated Financial Statements

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. (Incorporated by reference to Item 8. of Income Opportunity Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018).

Consolidated Financial Statements of Transcontinental Realty Investors, Inc. (Incorporated by reference to Item 8. of Transcontinental Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018).

(b) Exhibits.

The following documents are filed as Exhibits to this Report:

Exhibit Number	Description
3.1	Certificate of Restated of Articles of Incorporation of American Realty Investors, Inc., dated August 3, 2000 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.2	Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc., dated August 29, 2000 (incorporate by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series B Cumulative Convertible Preferred Stock dated August 26, 2003 (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.4	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

Exhibit Number	Description
3.5	By-laws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-4, filed on December 30, 1999).
4.1	Certificate of Designations, Preferences and Relative Participating or Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series F Redeemable Preferred Stock of American Realty Investors, Inc., dated June 11, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
4.2	Certificate of Withdrawal of Preferred Stock, Decreasing the Number of Authorized Shares of and Eliminating Series F Redeemable Preferred Stock, dated June 18, 2002 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.3	Certificate of Designation, Preferences and Rights of the Series I Cumulative Preferred Stock of American Realty Investors, Inc., dated February 3, 2003 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
4.4	Certificate of Designation for Nevada Profit Corporations designating the Series J 8% Cumulative Convertible Preferred Stock as filed with the Secretary of State of Nevada on March 16, 2006 (incorporated by reference to Registrant current report on Form 8-K for event of March 16, 2006).
10.1	Advisory Agreement between American Realty Investors, Inc. and Pillar Income Asset Management, LLC, dated April 30, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated April 30, 2011).
10.2	Second Amendment to Modification of Stipulation of Settlement dated October 17, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, dated February 24, 2002).
14.0	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.0 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
21.1 *	Subsidiaries of the Registrant.
31.1 *	Rule 13a-14(a) Certification by Principal Executive Officer.
31.2 *	Rule 13a-14(a) Certification by Principal Financial Officer.
32.1 *	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2019

American Realty Investors, Inc.

By: /s/ Gene S. Bertcher

Executive Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Henry A. Butler Henry A. Butler	Chairman of the Board and Director	March 31, 2019
/s/ Robert A. Jakuszcwski Robert A. Jakuszcwski	Director	March 31, 2019
/s/ Raymond D. Roberts, Sr. Raymond D. Roberts, Sr.	Director	March 31, 2019
/s/ Ted R. Munselle Ted R. Munselle	Director	March 31, 2019
/s/ Daniel J. Moos Daniel J. Moos	President and Chief Executive Officer (Principal Executive Officer)	March 31, 2019

/s/ Gene S. Bertcher Executive Vice President and Chief Financial Officer (Principal Financial and March 31,
Gene S. Bertcher Accounting Officer) 2019

ANNUAL REPORT ON FORM 10-K

EXHIBIT INDEX

For the Year Ended December 31, 2018

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31.2 * Rule 13a-14(a) Certification by Principal Financial Officer.

32.1 * Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.